



2020 ANNUAL REPORT



CONTENT

- 3 Nemak at a Glance
- 4 Product Portfolio
- 5 Financial Highlights
- 6 Letter to Shareholders
- 10 Lightweighting Developments
- 12 Nemak Safe and Strong
- 15 Sustainability
- 32 Operating Summary
- 34 Board of Directors
- 35 Management Team
- 36 Corporate Governance
- 37 Financial Section

GRI Standards: 102-1, 102-7

Nemak, S.A.B. de C.V. ("Nemak") is a leading provider of innovative lightweighting solutions for the global automotive industry, specializing in the development and manufacturing of aluminum components for powertrain, e-mobility, and structural applications. In 2020, the Company employed approximately 22,000 people at 38 facilities worldwide and generated revenue of US\$3.2 billion.

Controladora Nemak, S.A.B. de C.V. ("Controladora Nemak") is the owner of Alfa, S.A.B. de C.V.'s former shareholding in Nemak. Since the main asset of Controladora Nemak are shares representing Nemak's capital, the business of Controladora Nemak is substantially similar to the business of Nemak, and therefore is subject to the same operating and financial results. The operating and financial results of Nemak that are reported here are therefore also those of Controladora Nemak.

For more information about
Nemak, visit:
www.nemak.com





GRI Standards: 102-4, 102-6

Nemak at a glance

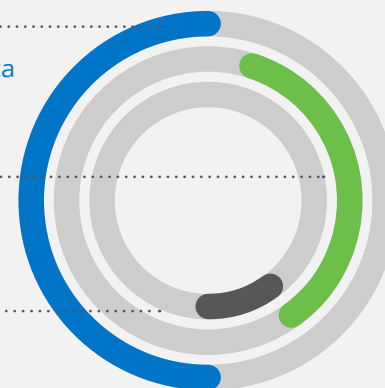
Nemak's manufacturing footprint spans
38 plants strategically located in 15 countries

Revenue

52%
North America

36%
Europe

12%
Rest of World



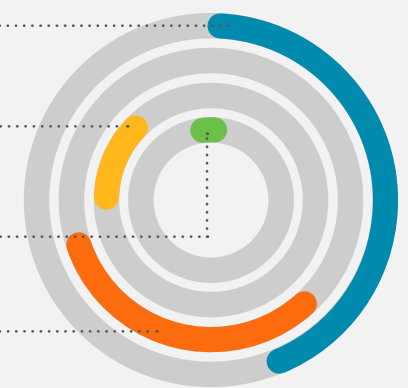
Segment Revenue

45%
Heads

15%
Transmissions
& other

5%
Structural & EV

35%
Blocks

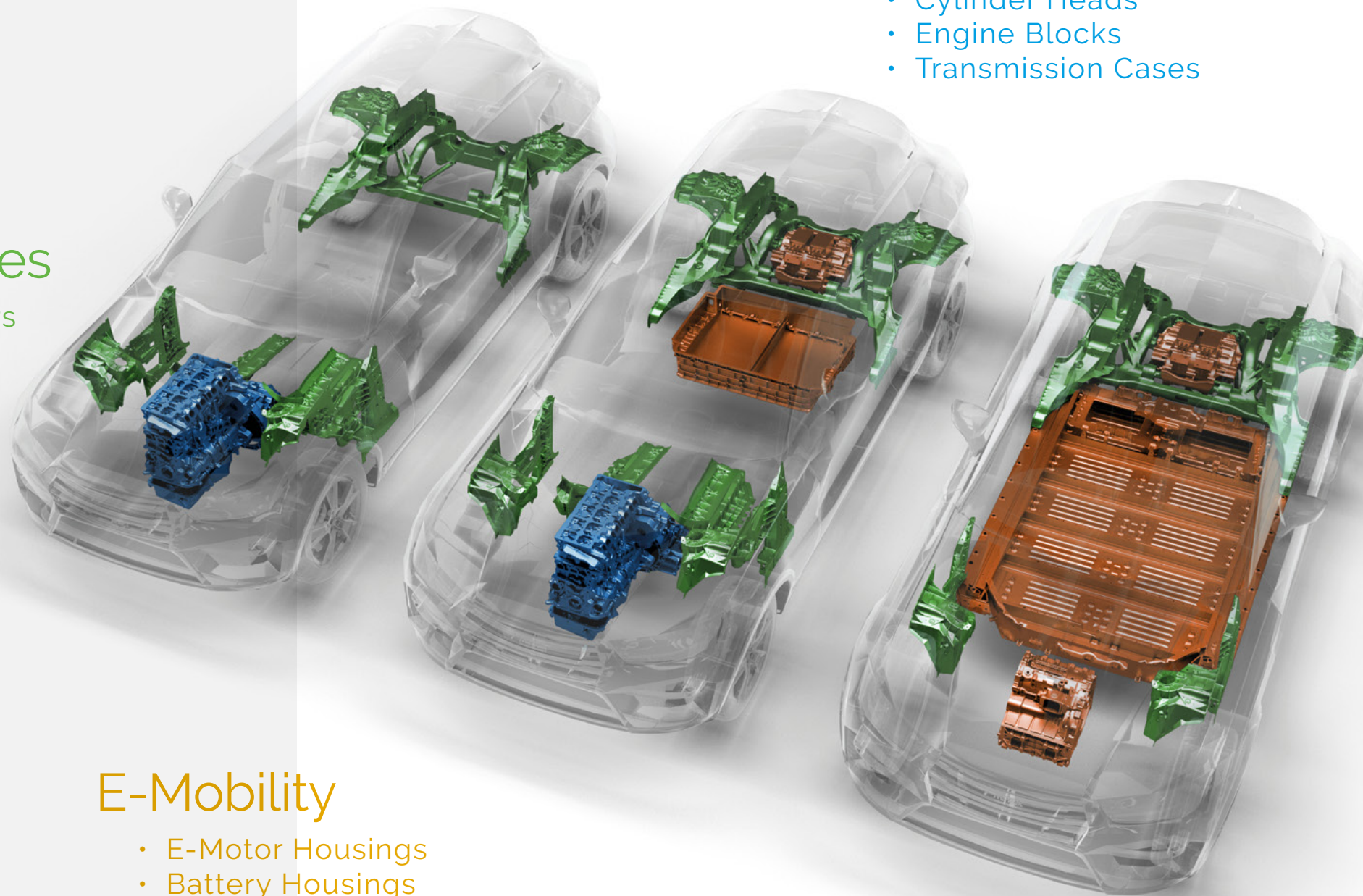


Product portfolio

GRI Standard: 102-2

Vehicle Structures

- Longitudinal Members
- Shock Towers
- Subframes



Powertrain

- Cylinder Heads
- Engine Blocks
- Transmission Cases

E-Mobility

- E-Motor Housings
- Battery Housings
(Hybrid / Fully electric)



GRI Standard: 201-1

Financial highlights

MILLIONS OF US DOLLARS	2020	2019	CHANGE
Volume (M. Eq. Units)	35.1	44.3	(20.7)
Total revenues	3,151	4,017	(21.6)
Gross profit	389	575	(32.3)
Sales & administrative expenses	(235)	(277)	(15.2)
Other income (expenses) net	(48)	(41)	17.1
Operating income	107	257	(58.4)
Interest expenses	(81)	(84)	(3.6)
Interest income	3	13	(76.9)
Foreign exchange (loss)	(50)	1	(5100.0)
Financing expenses net	(128)	(70)	82.9
Participation in associates results	(1)	2	(150.0)
Income tax	(12)	(59)	(79.7)
Net income	(34)	130	(126.2)
EBITDA ¹	432	621	(30.4)
CAPEX	269	344	(21.8)
Net debt	1,227	1,206	1.7

⁽¹⁾ EBITDA = Operating income + depreciation and amortization + non-recurring items

Volume millions of equivalent units



Total revenues millions of US dollars



EBITDA millions of US dollars



Letter to shareholders

GRI Standards: 102-10, 102-11, 102-14, 102-15

Dear shareholders:

Nemak's efforts to navigate the COVID-19 pandemic were instrumental to its solid performance in 2020, marking a new chapter in its growth and transformation journey. Nemak and its people addressed the year's extraordinary challenges head-on, proving agile and resilient in the face of increased volatility in the global markets.



Nemak implemented extensive awareness and prevention measures across its operations starting in the early days of the pandemic. Based on the Company's experience at its operations in China—where it witnessed firsthand the effects of the initial spread of the virus on the global automotive industry—it leveraged best practices to protect the health and safety of its people, while ensuring business continuity amidst the growing health crisis. This included the creation of a global task force comprised of top management and health and safety experts, who in turn implemented a variety of measures—including checkpoint screening, enhanced facility disinfection, and the redesign of workspaces, among others—to help minimize the spread of the virus amongst its employees and the communities where it operates.

Simultaneously, the Company took steps to support the long-term sustainability of its business, including operational efficiencies to optimize costs, expenses and cash flow, and the use of credit lines to reinforce its liquidity position. Nemak also postponed non-essential investments, implemented flexible work schedules, and temporarily idled manufacturing at certain locations, in response to widespread reductions in light-vehicle production.

Following historic shutdowns during the first half of 2020, the global automotive industry saw sustained recovery in both light-vehicle production and sales in the

back half of the year. Nemak echoed this trend in its own operations, bringing overall production back to near pre-pandemic levels as lockdowns eased and global manufacturing resumed pace.

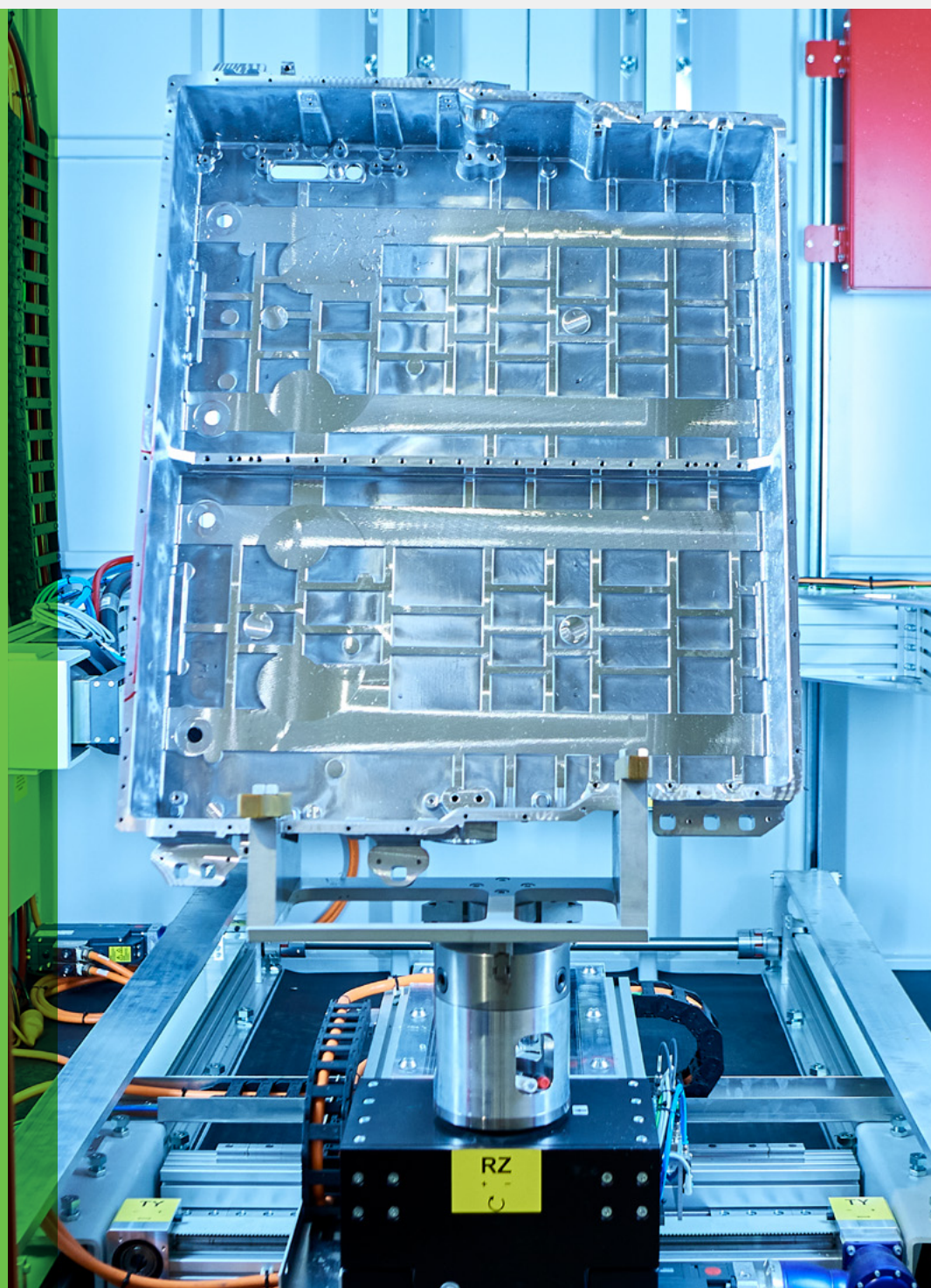
For the full year, light-vehicle sales in the US and Europe were down 15% and 21%, respectively. Regarding the other markets where the Company operates, China saw relative outperformance, finishing only 5% lower, whereas the Brazilian market saw a 27% reduction.

Financially, the Company remains in a solid position, despite the unprecedented events of the year. The adoption of strict cost controls, combined with prudent management of maintenance, contracted services, and other expenses, proved critical to mitigating the pandemic's impact on its business, while at the same time helping to lay the groundwork for a smooth operational ramp-up.

Moreover, these efforts drove year-over-year reductions in General Sales & Administrative Expenses and Cost of Goods Sold of 17% and 5% in the second half of 2020, which in turn helped Nemak record EBITDA per equivalent unit of US\$16.2 for the period, its best-ever mark for a second half.

Total volume was 35.1 million equivalent units, down 21% from the previous year, as temporary pandemic-related shutdowns rippled through the global automotive industry. In turn, revenue fell by 22% to





The Company finished the year with US\$437 million in cash. This focus on cash preservation resulted in greater flexibility to meet financing needs amidst an industry landscape marked by increased uncertainty.

US\$3.2 billion, from the US\$4.0 billion reported in 2019. EBITDA was US\$432 million, down 30% from 2019, as the uptick in revenue in the second half and operating efficiencies attained during the year partially offset the shortfall in revenue that followed on from the production stoppages in the first half combined with non-recurring items associated with severance payments and other COVID-related expenses incurred during the year. Net Income was -US\$34 million, down US\$164 million over 2019, driven mainly by the same factors that weighed on EBITDA along with non-cash exchange rate effects on financial results.

Capital expenditures were US\$269 million, down 22% over the previous year. Meanwhile, dividends were paid in April but the remaining dividends were cancelled, further supporting Nemak's efforts to preserve cash and ensure business continuity. Notwithstanding the headwinds the Company faced in the first half of 2020, it finished the year with a similar level of Net Debt compared to the previous year. Moreover, by December 31, it had repaid the majority of the credit lines drawn early in the year to support liquidity during the production stoppages.

During the first half of the year, Nemak engaged in dialogue with its banking partners on the pandemic's effects on its business, resulting in the successful implementation of amendments to all existing loan agreements containing leverage covenants, whereby the maximum

leverage threshold was increased from 3.5 to 4.75 times through mid-2021.

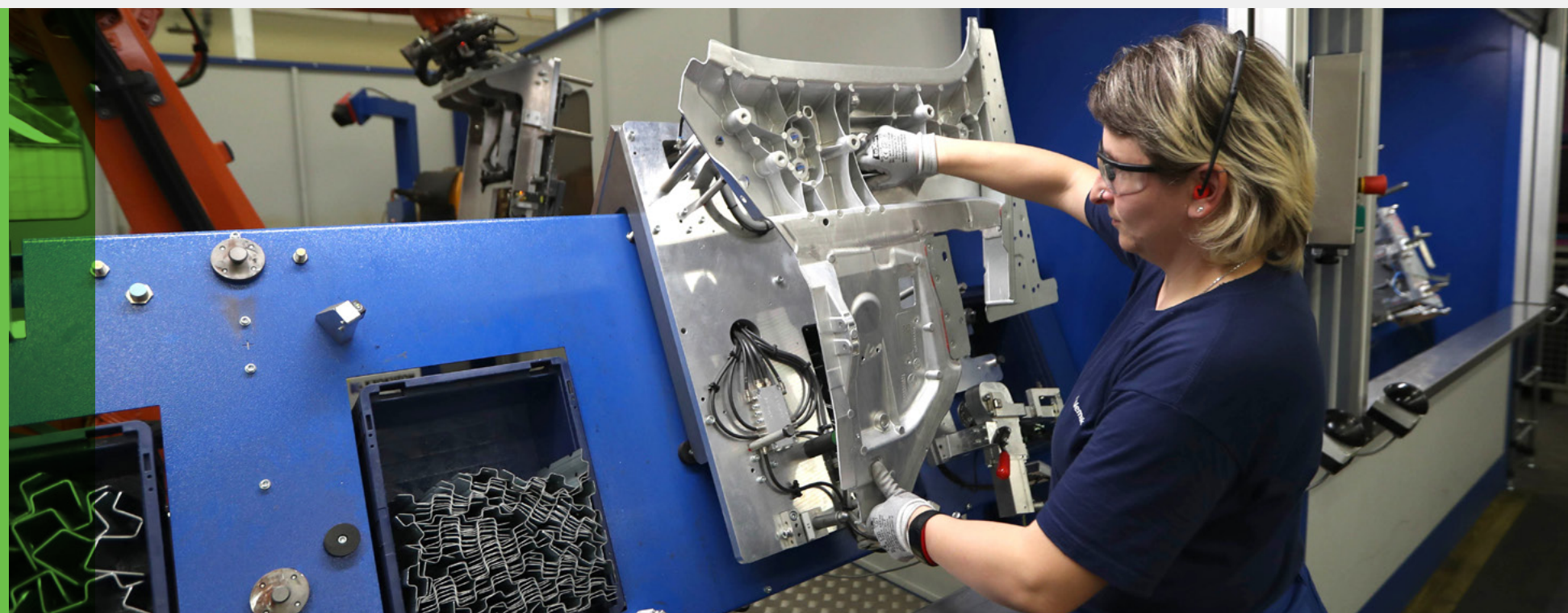
The Company finished the year with US\$437 million in cash. This focus on cash preservation resulted in greater flexibility to meet financing needs amidst an industry landscape marked by increased uncertainty.

As a reflection of the Company's prudent approach to managing liquidity and ensuring financial resilience, the main rating agencies reaffirmed their existing ratings on Nemak's debt, which, as of the date of this publication were: investment grade by Fitch, and one notch below investment grade by Moody's as well as Standard & Poor's.

Nemak continued to work closely with its customers in support of their lightweighting and electrification strategies, helping it win new business to produce e-mobility and structural applications (EV/SC) for global OEM customers (Original Equipment Manufacturers). To this end, it continued to harness its design engineering, simulation, and casting capabilities to deliver tailor-made solutions that support and protect critical parts, reduce weight and, therefore, increase the battery range of these vehicles. As of the date of this publication, the total order book in its EV/SC segment amounted to approximately US\$850 annually. Additional highlights included the start of production of battery housings for the all-electric Ford Mustang Mach-E in North America as well as for



Nemak won contracts across its product lines worth approximately **US\$700 million** in annual revenue



mass-market, plug-in hybrid applications of the Volkswagen Group in Europe and Stellantis in North America.

During the year, Nemak won contracts across its product lines worth approximately US\$700 million in annual revenue, broken down as follows: US\$110 million to produce e-mobility and structural applications; and US\$590 million to produce powertrain applications.

Due to its ongoing efforts to anticipate and meet customer needs, Nemak was recognized once again with important industry awards, including the General Motors "Supplier of the Year," and the Volkswagen Group Award in the "Launch of the Year" category.

In August, Alfa, Nemak's parent company, approved the transfer of its entire share ownership in Nemak to a new entity to

be listed on the Mexican Stock Exchange: Controladora Nemak, S.A.B. de C.V. (Controladora Nemak). In this transaction, which was finalized in December 2020, shareholders received one share of Controladora Nemak for each Alfa share, while the total number of Nemak shares remained unchanged. Going forward, Nemak reaffirms its commitment to focus on capitalizing on its competitive advantages to drive long-term value creation for its shareholders, now as a fully independent company.

Nemak's value proposition remains centered on devoting significant efforts to help its customers make their vehicles lighter and, therefore, more efficient in terms of energy consumption. In 2020, the Company further enhanced its own Environmental, Social and Governance (ESG) practices, publicly establishing

medium- and long-term ESG performance targets. This included continuing efforts to minimize its carbon footprint and attain meaningful goals, such as lower use of water and electricity, optimized use of resources, and reduced waste generation. Since 2015, Nemak has invested more than US\$50 million in ESG-related initiatives.

Using the United Nations Sustainable Development Goals as its benchmark, Nemak has joined the global Science Based Targets initiative (SBTi) to define goals to reduce greenhouse gases, in line with international efforts to mitigate climate change. In 2020, Nemak set the goals of reducing Scope 1 and 2 emissions by 28%, and Scope 3 emissions by 14%, both targets by 2030 and using the year 2019 as the baseline. As of the date of this publication, these goals remain subject to SBTi's customary review process, which Nemak expects to complete during 2021.





Regarding responsible production and consumption, Nematik is committed to improving energy efficiency through implementing high standards (such as ISO-50001) at its plants. The Company also seeks to harness secondary aluminum, or recycled aluminum, to reduce the environmental impact of its operations. Nematik continues to make inroads in this regard; currently around 80% of the aluminum used in its processes comes from recycled sources.

Nematik is committed to protecting and improving the communities where it operates, and providing its employees with a safe, diverse, and welcoming environment in which to work. Additionally, the Company adheres to the universal principles of the United Nations Global Compact, one of the world's most widely recognized corporate sustainability initiatives, which guide its efforts in areas such as human rights, labor, environment and anticorruption.

For the second consecutive year, Nematik was selected to be part of the Dow Jones Sustainability MILA Pacific Alliance Index, as well as the FTSE4Good Index Series, based in part on expert assessments of its sustainability performance. Additionally, Nematik was included in the newly created S&P/BMV Total Mexico ESG Index, which features companies that meet relevant sustainability criteria.

Although 2020 was a difficult year, the Company has emerged in an even stronger position to further its mission to provide customers with tailored, innovative lightweighting solutions in support of long-term sustainable mobility.

Nematik would like to thank its shareholders for their continued trust in the management team and its strategies, and to reiterate its commitment to continue safeguarding the health of its employees and their families, to maximizing shareholder value, and to maintaining financial resilience during these extraordinary times.

San Pedro Garza García, N.L. Mexico
January 31, 2021

Armando Garza Sada

Chairman of the Board of Directors

Armando Tamez Martínez

Chief Executive Officer





GRI Standard: 201-2

Lightweighting developments

~US\$700
million annually in
new contracts across
all product lines

Over the years, Nematik has grown to become a leading provider of innovative lightweighting solutions for global automakers across powertrain, e-mobility, and structural applications.



US\$110
million to produce
e-mobility and structural
applications (EV/SC)

The Company's value proposition to its customers centers on its efforts to make their vehicles lighter, and therefore more efficient in terms of energy consumption. In turn, weight reduction enables its customers to achieve a variety of goals linked to the long-term sustainability of their business, including meeting CO₂ emissions and fuel-efficiency regulations, and consumer expectations regarding the performance and driving range of next-generation vehicles.

To this end, based on energy optimization and recycling of end-of-life materials, Nemak harnesses a variety of solutions ranging from casting, design simulation, prototyping, alloy development, and secondary processes such as machining and heat treatment to joining and assembly processes focused on structural and battery pack applications for electric vehicles, such as bonding, riveting, friction stir-welding, laser welding, and MIG and TIG welding, among others,

During 2020, Nemak leveraged its technological capabilities to meet its customers' lightweighting needs, spanning traditional combustion engine, hybrid, and fully electric applications. The Company won new contracts across its product lines worth a total of approximately US\$700 million annually, broken down as follows: US\$590 million to produce cylinder heads, engine blocks, transmissions, and other powertrain components; and US\$110 million to produce e-mobility and structural applications.

On the powertrain side, the Company won incremental business in all its regions; this included contracts to supply cylinder heads and engine blocks to an Asia-based OEM customer in Europe and South America worth approximately US\$80 million annually.

At the same time, it tapped into dedicated teams to deliver tailor-made solutions to support the crashworthiness and thermomechanical requirements of its customers' new electric vehicles. The main highlights included winning new contracts to produce battery housings for an iconic, full-electric premium vehicle of a customer in North America as well as plug-in hybrid sedans and SUVs and fully electric, heavy-duty commercial vehicles in Europe.

At the close of 2020, the Company's order book in its EV/SC segment stood at a total of approximately US\$850 million annually. Additionally, it was pursuing new business opportunities worth more than US\$1 billion annually to produce these parts.

The Company also continued to ramp up production of EV/SC applications across its global operations. This included initiating series production of battery housings for the fully electric Ford Mustang Mach-E and plug-in hybrid electric vehicles of Stellantis in North America and the Volkswagen Group in Europe, along with structural applications for new fully electric sedans of Volvo Cars in Asia. During the year, it generated approximately US\$175 million in revenue in this segment.



Nemak safe and strong

Nemak developed a Pandemic Control Plan as part of its ongoing efforts to deliver the highest standards of health and safety

Nemak's efforts to manage and successfully emerge from the COVID-19 pandemic were instrumental to its solid performance in 2020, marking a new chapter in its growth and transformation journey.

Nemak is committed to protecting the well-being of its people. The Company developed a Pandemic Control Plan as part of its ongoing efforts to deliver the highest standards of health and safety to its employees and their families, while supporting worldwide efforts to mitigate virus transmission.

Based in large part on the Company's experience in China, where it witnessed firsthand the effects of the initial spread of the virus on the global automotive industry, it leveraged best practices across its operations to protect its people while maintaining business continuity amidst the health crisis.

To that end, it also developed a Back-to-Nemak Playbook containing an overview of the steps employees would be asked to follow to take care of themselves and one another as they resumed normal business activities.

The Back-to-Nemak Playbook was designed to complement the Pandemic Control Plan, facilitating stakeholder access to additional details on practices implemented by the Company to ensure the safe operation of its manufacturing and other facilities.

Based on government guidelines as well as consultations with industry experts, the Back-to-Nemak Playbook was a collaborative effort of the Company's HSE, Medical Services, Human Resources, Finance, Supply Chain Management, Commercial, and Operations teams together with its union and works counsel partners.

The Back-to-Nemak Playbook was designed to complement the Pandemic Control Plan



A safe workplace

Nemak implemented a series of measures to help deliver a safe and strong restart of its operations following the easing of pandemic-related production stoppages in the first half of the year, including:

- Cleaned and disinfected workstations, office spaces, and common areas
- Instituted daily disinfection and cleaning protocols
- Stocked up on personal hygiene sanitizers
- Redesigned workspaces and workflow to comply with social distancing protocols
- Established health screening checkpoints
- Required all employees, visitors, and contractors to be screened for signs or symptoms of COVID-19 before being allowed access to Nemak locations
- Implemented COVID-19 emergency response procedures
- Arranged restrooms, cafeterias, canteens, meeting rooms, and other common areas to allow employees to easily maintain social distancing
- Provided employees with facemasks, glasses, and other protective equipment designed to prevent virus transmission
- Required employees to report if they experienced any symptoms of the virus

Leveraging technology

Nemak identified and supported the development of systems and applications to manage its COVID-19 response.

Some of its locations offered online medical consultations that allowed employees access to health care professionals without a trip to the doctor. Additionally, Nemak developed a self-service mobile app that enabled employees and visitors to report symptoms and exposure to the COVID-19 virus.

The Company also developed a Risk Assessment App to reduce the risk of exposure to the Coronavirus. This easy-to-use mobile app helped employees assess and implement preventive measures in their workspaces.



Facility Readiness Actions

- Verified HVAC units are operating, visibly clean and with no biological growth in the air stream
- Verified air filters are clean and not inhibiting flow
- Verified return air fan exhaust and air fan are operational to support economizer mode of HVAC system as required
- Established natural ventilation, when available, for facilities that have operational windows and when outdoor temperatures allow

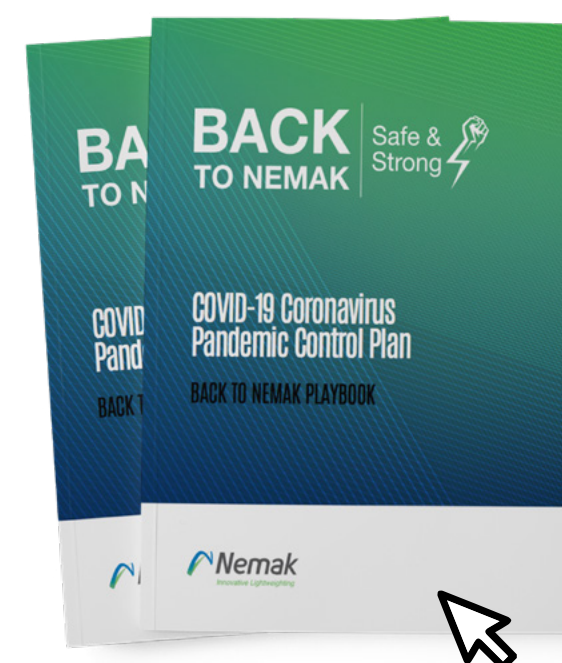
Implementing alternative work schemes

In line with industry best practices, and recognizing that some work could be done remotely, Nemak implemented work-from-home arrangements to minimize the number of people at the office at any given time, and therefore facilitate adherence to social distancing guidelines.

Extending our commitment to our business partners

Nemak provided a copy of its Playbook to ensure that suppliers, business partners, and third parties were aware of its health and safety practices when onsite at its facilities or interacting with its employees.

As always, Nemak's top priority is to continue to apply the highest standards of health and safety for its employees. More than ever, it is important that every single employee follow best practices in prevention to help minimize virus transmission, as individual actions can significantly contribute to the well-being of others.





~80%

of Nemak's products are currently
made of recycled aluminum

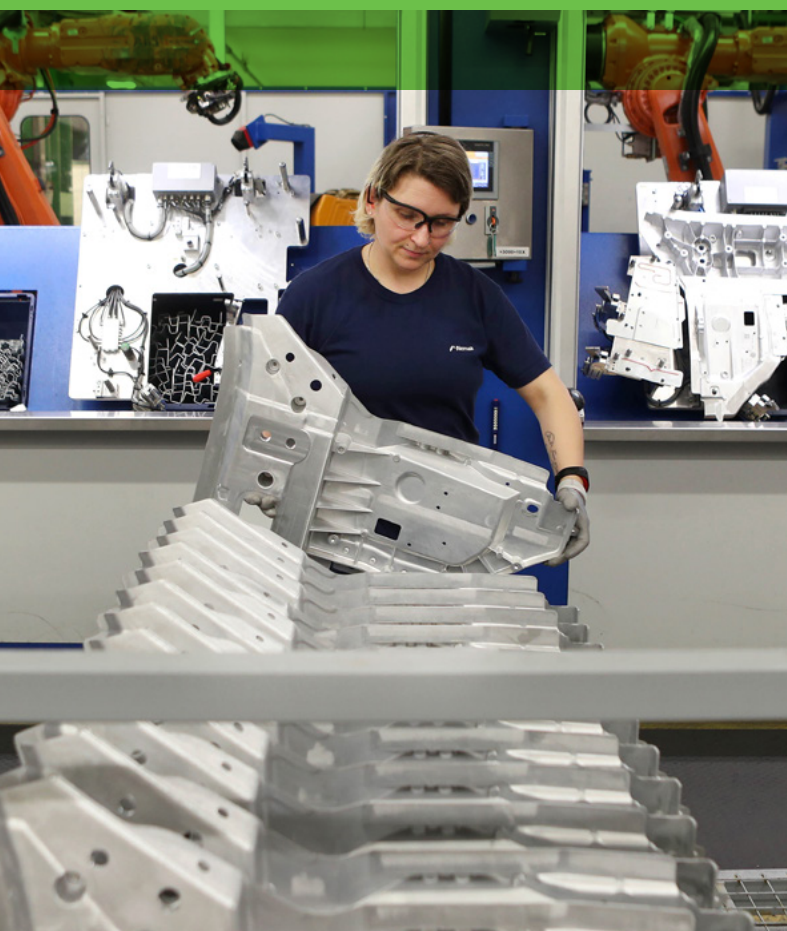
GRI Standard: 201-2

Sustainability

In 2020, Nemak took action on a variety of fronts in support of the automotive industry's ongoing shift toward a more sustainable mobility. As part of its efforts to contribute to climate change goals as stipulated in the Paris Agreement, it continued with initiatives to support resource optimization and decrease energy use. At the same time, it found itself having to implement extraordinary measures to help protect its people and the communities where it operates from the effects of the pandemic that swept the globe.



Notwithstanding the challenges of 2020, Nematik made substantial progress on the implementation of its sustainability strategy. The following section contains a general description of the Company's approach in this in this regard, as well as an overview of its progress in the year on Environmental, Social, and Governance (ESG) priorities.



Sustainability roadmap

GRI Standards: 102-11, 102-16, 102-43

As part of the Company's efforts to drive innovation and shape the future of automotive lightweighting, it seeks to harness its technology, operations, and business practices to contribute to the automotive industry's goal of reducing its carbon footprint. Nematik understands that advancing technology is only part of the picture, and that it must also actively protect the environment, its people, and the communities where it operates.

The Company has made significant contributions toward electrifying mobility by developing energy-efficient solutions, such as cast and assembled battery housings as well as highly integrated e-motor

housings. With its expertise in lightweight design, Nematik offers its customers both primary alloys and alloys made of end-of-life (recycled) material, which can reduce the product carbon footprint (PCF) by up to 90% of CO₂ equivalent (CO₂e). Circularity and recycling are key measures, and approximately 80% of Nematik's products are currently made of recycled aluminum¹.

During 2020, Nematik reassessed its sustainability strategy, identifying areas in need of increased focus and reviewing its long-term priorities in an effort to enhance its contributions toward a more sustainable future.

	Objective:	Description
ENVIRONMENTAL	Climate Protection	Reduce GHG emissions Scopes 1 & 2 by 28% by 2030 based on 2019; Scope 3 by 14% by 2030 based on 2019, based on Science Based Targets methodology
	Energy Efficiency & Renewable Energy	Continuous improvement and energy efficiency by implementing ISO 50001 in all locations globally. Nematik will increase the percentage of renewable energy in its production processes to 25% by 2025, and to 70% by 2030
	Water & Waste	Minimize water withdrawals and ensure that wastewater discharge meets purity and water quality standards. Reduce the volume of the solid waste stream by implementing waste reduction and recycling programs
ECONOMIC GOVERNANCE	Responsible Management	Continuous improvement in governance and sustainability practices using external ratings as benchmarks and guiding principles
	Responsible Supply Chain	Sustainability as a key fundamental prerequisite for building successful business relations along the value chain
	Circularity & Product Stewardship	Continuously reduce the impact of Nematik's products by life cycle assessment of products
SOCIAL WELL-BEING	Diversity & Inclusion	Create an inclusive culture that reflects the diversity of the company and the communities in which the Company operates
	Stakeholder Engagement & Communities	Nematik continuously strives to implement stakeholder tools and mechanisms of interaction, as well as shared value-creating opportunities
	Health & Safety	Continuous reduction in the frequency and severity of actions measured by year-over-year reduction in TRIR (20%), and 10% year-over-year reduction of incidents that result in temporary or permanent lost-time or restrictions

¹ Values derived by internal life cycle assessments (LCA).



Nemak's Sustainability model and strategy

Nemak has long understood that advancing technology is only part of the sustainability model, and that its strategies must also actively protect the environment, its people, and the communities where it operates. The Company's approach to sustainability includes the four key pillars of the Economy, Environment, Internal Well-Being, and Community.

Nemak has systematically implemented goals and Key Performance Indicators (KPIs) to manage, execute, and monitor progress on its strategy. The Company's sustainability goals align with the framework of the United Nations Sustainable Development Goals (SDGs),² and its core values are the springboard for turning its sustainability targets into reality.³

WE SUPPORT



Global sustainability assessments, requests from customers, and requirements for legal compliance are increasing, placing further pressure on companies to enhance sustainability efforts. To improve global collaboration and multi-site coordination, Nemak created a dedicated sustainability team in 2020.

The Company also created a Sustainability Steering Committee comprised of managers representing several functional areas within the organization, including Purchasing, Environment, Health and Safety (EHS), Human Resources, Investor Relations, Communications, and Legal and Compliance. The Committee's purpose is to support the implementation of sustainability-related measures in the areas where Nemak's operations have the most material impact, such as energy efficiency, climate change and emissions, environmental management, and sustainability in the value chain.



Moreover, in an effort to accelerate the rollout of its strategy, Nemak created a climate task force responsible for developing and implementing its roadmap to net zero.

Nemak sees the following five areas as growth opportunities in its operations, and believes they are the most critical to developing sustainably:

The transition to a low-carbon industry through control and mitigation of GHG emissions

Preservation of natural resources through the principle of circularity

Improve waste and water management

Enhanced transparency throughout the value chain

Pressure from businesses and end customers towards developing more sustainable solutions

² <https://sdgs.un.org/goals> and the Ten Principles of the UN Global Compact (<https://www.unglobalcompact.org/what-is-gc/mission/principles>)

³ <https://www.nemak.com/about-us/>





Sustainability highlights 2020

In 2020, Nematik made continued progress on its journey towards sustainable mobility. Key milestones in this regard included:

- Submitted CO₂ reduction targets to the Science Based Targets initiative (SBTi)
- Exceeded its reduction target of 41,000 tons in CO₂e emissions
- Selected to be part of the **DJSI MILA Pacific Alliance** and the **FTSE4Good Index** Series for the second consecutive year
- Joined the **UN Global Compact** and has committed to its ten principles
- Implemented **initiatives** globally to reduce the environmental, health and safety impacts of its operations
- Developed a **world-class COVID-19 pandemic control plan** to ensure continued employee safety in response to the spread of the virus

Nematik's contributions to the UN Sustainable Development Goals

Nematik's sustainability roadmap dovetails with the United Nation's Sustainable Development Goals (SDGs). The Company focuses its efforts primarily on the following SDGs: Quality Education; Industry, Innovation and Infrastructure; Responsible Consumption and Production; Climate Action; and Decent Work and Economic Growth.

Effective engagement with stakeholders

GRI Standards: 102-40, 102-41, 102-42, 102-44, 102-47
SAM S&P 1.2 Materiality

Any individual or organization that directly impacts or is impacted by Nematik's activities is defined as a Company stakeholder. This can include shareholders, employees, customers, suppliers, regulators, government representatives, communities, media, and non-governmental organizations.

Through the materiality analysis that Nematik performs periodically, in 2020 the Company updated its Materiality Matrix, considering the changing global social and economic scenario, as well as requirements of ESG performance disclosure platforms. Key inputs included the Sustainability Accounting Standards Board (SASB) Materiality Map for the automotive industry and the global legislation landscape around sustainability, which is changing rapidly.

Nematik identified twelve areas that underpin its Sustainability Model and Strategy, helping to guide its efforts to set and implement long-term targets and to improve engagement and foster dialogue and trust with stakeholders. In order of relevance, these areas are as follows:

- 1) Climate crisis and emissions reductions
- 2) Energy efficiency and use of renewable sources
- 3) Relations with shareholders and customers
- 4) Environmental management
- 5) Engagement with the value chain
- 6) Responsible sourcing
- 7) Labor practices and talent management
- 8) Health and safety
- 9) Materials efficiency and circularity
- 10) Diversity and inclusion
- 11) Water management
- 12) Community engagement and development



Reporting structure

GRI Standards: 102-12, 102-46, 102-49

As part of its efforts to provide transparency to all stakeholders, Nematik has structured its sustainability reporting in conformance with ESG criteria of the Global Reporting Initiative (GRI) and the Task Force on Climate-Related Financial Disclosure (TCFD), focusing on the following key elements:

- **Environmental management**
- **Social well-being**
- **Sustainable corporate governance**

External sustainability scores and assessments




Every year Nematik submits its ESG data to the Carbon Disclosure Project (CDP), the S&P Global Corporate Sustainability Assessment (CSA, formerly known as RobecoSAM), and other disclosure platforms listed in the following table.

Nematik's participation in the CDP and the CSA date back to 2016. Nematik has significantly improved its scores in the CSA as well as in three separate CDP assessments (Climate Change, Water, and Supplier Engagement) over this period.

The results of these ratings are important for customers, the financial markets, and Nematik itself, as the Company uses the feedback to improve its sustainability performance.



External sustainability scores and assessments

Rating 2020	
DJSI MILA Sustainability Index	Member of Dow Jones Sustainability Indices <small>Powered by the S&P Global CSA</small>
FTSE4 Good Index Series	 FTSE4Good
CDP	 <small>DRIVING SUSTAINABLE ECONOMIES</small> Water: B- Climate: C Supplier Engagement: A-
EcoVadis	



12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION13 CLIMATE
ACTION

Environmental management

SDG 12: Responsible Consumption and Production; SDG 13: Climate Action
Material Aspect: Environmental Management

Nemak strives to maximize value for its stakeholders while simultaneously minimizing its environmental impact. Within the Company's materiality analysis, climate change and emissions reductions, energy efficiency, environmental management, and resources management are the most relevant issues to its stakeholders. Together with its suppliers and customers, Nemak works to address these issues by focusing its efforts on two fundamental areas:

a) Reduction of CO₂ footprint:

At the heart of the Company's climate strategy is the SBTi as the baseline for its target-calculation model. The goal is to define a long-term pathway to climate-neutral production.

Preliminary targets:

- **Reduce Scope 1 and 2** emissions by at least 28% by 2030 from a 2019 baseline
- **Reduce Scope 3** emissions by at least 14% by 2030 from a 2019 baseline

b) Strategy deployment:

- **Green Production:** Energy efficiency measures to optimize and lessen energy use wherever possible. Increase the sourcing of renewable energy at Nemak and throughout the supply chain.
- **Green Products:** Through its Research and Development activities, Nemak increases the use of recycled and end-of-life material, while still meeting its customers' demands for high quality.
- **Green Sourcing:** Since approximately 70% of Nemak's corporate carbon footprint is generated within its Scope 3 emission profiles, the Company actively engages with its suppliers to include them in its emissions reduction program.



In 2020, investments in sustainability-related processes, equipment, and actions amounted to:

Millions of US\$	2020	2019	2018
Emissions reductions	4.19*	0.43	3.5
Environmental management	.23	1.6	1.3
Waste disposal and reduction	.71	4.7	4.0
Prevention costs	.16	2.35	1.2
Remediation costs	0	0.051	0.1
Other**	4.48	0.04	0.4
Total	9.78	9.1	10.5

* US\$3.2 million applies to reductions in non-greenhouse gas emissions, and US\$1.0 million applies to GHG emission reductions in 2020.

**This category includes water stewardship, and occupational health costs for the COVID-19 response.



Emissions: reduction of air pollutants

Non-Greenhouse Gas Emissions
GRI Standards: 305-1 to 7
SAM S&P: 2.3.1, 2.3.2
CDP CC6.1, 6.2, 7.1

In 2020, Nemak invested US\$3.1 million to reduce the amount of Significant Air Pollutants such as Hazardous Air Pollutants (HAP), Particulate Matter (PM), and Volatile Organic Compounds (VOC) released into the atmosphere. These investments included replacing baghouses to filter PM with newer versions that have higher capture efficiency, and engineered control systems to reduce 98% of HAP and VOC emissions.



Emissions: Science Based Targets well below 2° C

Material Aspect: Climate Crisis and Emissions Strategy

Nemak's commitment to climate protection

As a responsible corporate citizen, Nemak believes it has a duty to help protect the planet from the impending climate crisis. A material issue for Nemak and the casting industry as a whole is to control and reduce the GHG emissions inherent in the energy-intensive nature of the business.

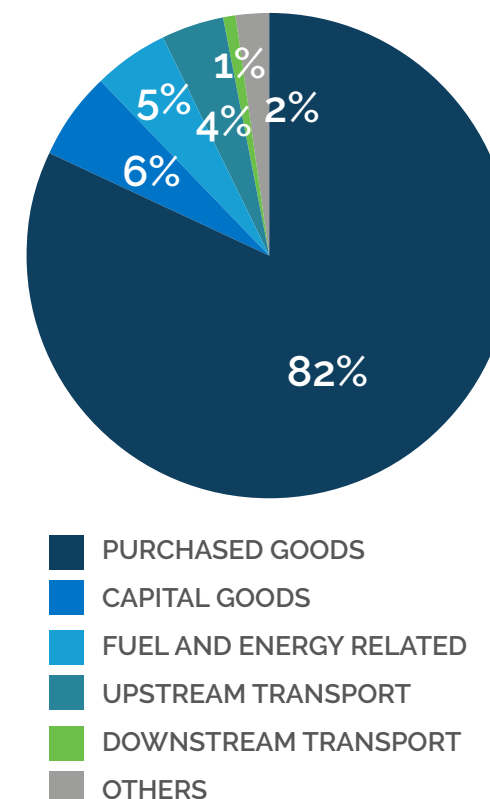
To this end, in 2020, Nemak calculated its first Corporate Carbon Footprint (CCF), including for the first time not only Scope 1 and Scope 2, but also a full Scope 3

inventory. This is a requisite condition to submit target calculations in order to determine Science Based Targets. In December 2020, the Company submitted its reduction path and targets to the Science Based Targets initiative. Targets can be monitored at the following link: <https://sciencebasedtargets.org/companies-taking-action#table>

Emissions overview

For Nemak, understanding, accounting for, and managing its Scope 1, 2, and 3 emissions is crucial to reducing its carbon footprint.

Scope 3 emissions breakdown



Measuring methods

CDP C5.2

Nemak quantifies its Scope 1 and Scope 2 GHG emissions on an operational control basis, as part of the GHG inventory guidance reporting requirements.

Based on ongoing consultations with its suppliers, Nemak has developed a detailed understanding of the impact of their GHG emissions on its overall CO2 footprint, and has therefore included Scope 3 categories in its calculations.

Scope 3 emissions are reported for the business in accordance with the Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

The Company's reporting period for its Corporate Carbon Footprint (CCF) was January 1, 2020 to December 31, 2020.



Impacts and mitigation

GRI Standard: 305-5

In 2020, Nemak launched numerous initiatives to reduce the environmental, health, and safety impacts of its operations. These included low-cost administrative programs, wastewater and storm water treatment projects, capital-intensive emissions control systems to reduce significant air pollutants, lighting upgrades, noise-abatement systems, and energy-efficiency solutions using the IoT (Internet of Things) and Industry 4.0 technologies.

This contributed to a 249,000 reduction in CO2e tons in the year, equal to 3.2 million gigajoules (GJ), which represents electricity usage for 42,157 homes in one year, according to the calculation tools used by the EPA (Environmental Protection Agency of the United States).

Emissions in Tons CO ₂ e*	2020	2019
Scope 1	598,629	719,659
Scope 2	563,095	699,319
Scope 3	3,150,516	3,384,960
Total	4,312,241	4,803,938

* In 2018, data was calculated using methodology and numbers from Nemak's parent company, ALFA. In 2019 and 2020, the process was modified according to calculations based on the Greenhouse Gas Protocol.++



Energy: process efficiency for more responsible consumption

Material Aspects: Energy Efficiency; Environmental Management
GRI Standards: 302-1 to 4
SAM S&P 2.3.3

Energy management

In accordance with the Company's climate strategy, Nemak is prioritizing increasingly efficient energy use to address the challenge of shifting towards greener and renewable energy options in operations.

The Company applies international standards such as ISO 50001,⁵ with which 33% of its facilities are already in compliance. In renewable energy, Nemak currently receives power from solar energy sources in India and Poland, a cogeneration plant in Poland, wind-driven energy in Mexico, and renewable and non-carbon sources account for approximately 50% of the electricity sourced from its German suppliers. By the end of 2020, approximately 12% of the energy Nemak used across its operations came from non-carbon energy sources. Through its renewable energy sources, the Company has avoided energy usage from fossil fuel-fired plants totaling 432,000 GJ in 2020.

⁵ ISO 50001 is a voluntary international standard developed by ISO, the International Organization for Standardization. ISO 50001 provides requirements for establishing, managing and improving energy consumption and efficiency.

Energy Consumption in thousands of GJ	2020	2019	2018
Direct Use			
Natural gas	10.3	12.4	13.29
LGP	0.19	0.21	0.17
Gasoline	0.003	0.003	0.002
Diesel	0.13	0.17	0.22
Fuel Oil	.002	.002	
Others (includes district heating and steam)	0.1	0.005	0.39
Indirect Use			
Electricity (non-renewable)	3.4	4.2	4.73
Renewable energy			
Wind	0.17	0.21	0.2
Solar	.0001	0.0001	0.012
Mix**	0.25	.26	
Total (Direct and Indirect)	14.38	17.71	19.03
Energy intensity*	.0046	.00433	0.0038

* Energy intensity is the total energy consumed per total revenues in US\$.

** Mix: electricity generated from various renewable sources.



Responsible use of materials

Material Aspects: Responsible Sourcing, Efficiency and Recycling
GRI Standards: 301-1 to 3.
SAM S&P 2.4.4

Nemak's responsibility to the environment derives in part from its use of products made of materials such as bauxite, the raw material required to produce aluminum, and aluminum, the principal metal Nemak uses in its production processes. Aluminum is durable, lightweight, and almost endlessly recyclable, so wherever possible, the Company obtains recycled – or secondary aluminum – in order to reduce its environmental footprint.

Recycling strategy

According to the principles of a circular economy, waste and pollution are designed out, products and minerals are kept in use, and natural systems are regenerated. As Nemak strives to work in a circular economy approach, it continues to increase its use of recycled materials, engaging proactively with its supply chain and encouraging similar responsibility among its suppliers, while simultaneously increasing technical collaboration with its customers.

The Company addresses pollution from a Scope 3 approach through its e-mobility and structural applications business, helping customers expand their offerings of energy-efficient vehicles and meet increasingly strict emissions regulations in the world's largest automotive markets.

Although working in a fully circular economy is a long-term goal, Nemak has already advanced its use of recycled raw materials, namely the aluminum and sand used in its processes.



Waste Streams in k Tons	Total Waste Generated		Waste Recycled/Recovered		Waste Directed to Disposal/Landfill	
	2020	2019	2020	2019	2020	2019
Sand-Related	108	183	50	79	58	104
Aluminum-Related	96	110	39	26	57	83
Industrial and Commercial Waste NOC*	42	24	10	7	32	14
Metals	12	22	12	22	0	0
Water/Aqueous Solutions	17	12	2	4	0	.252
Oils/Lubricants/Emulsions	15	10	6	1	0	.075

*NOC: Not Otherwise Classified. This waste stream also includes: cardboard, paper, plastic, construction material, chemicals and electronics. Other waste treatment methods for water and oils include: oil refining, chemical treatment, and other treatments not mentioned in the columns above.



Water management

Material Aspect: Water Management
GRI Standards: 303-1 to 5
SAM S&P 2.3.4
CDP W1.1, W1.2, 1.2b, 1.2d, 1.2h

While Nematik does not use water intensively in its production processes, it is aware of the importance of water on a broader, worldwide scale. The Company has therefore developed a water-management strategy that includes water-saving measures, such as: constructing new wastewater treatment plants (Nematik currently owns 23), increasing water recycling, substituting material pollutants in processes, and developing green landscape plans to reduce erosion and improve storm water quality.

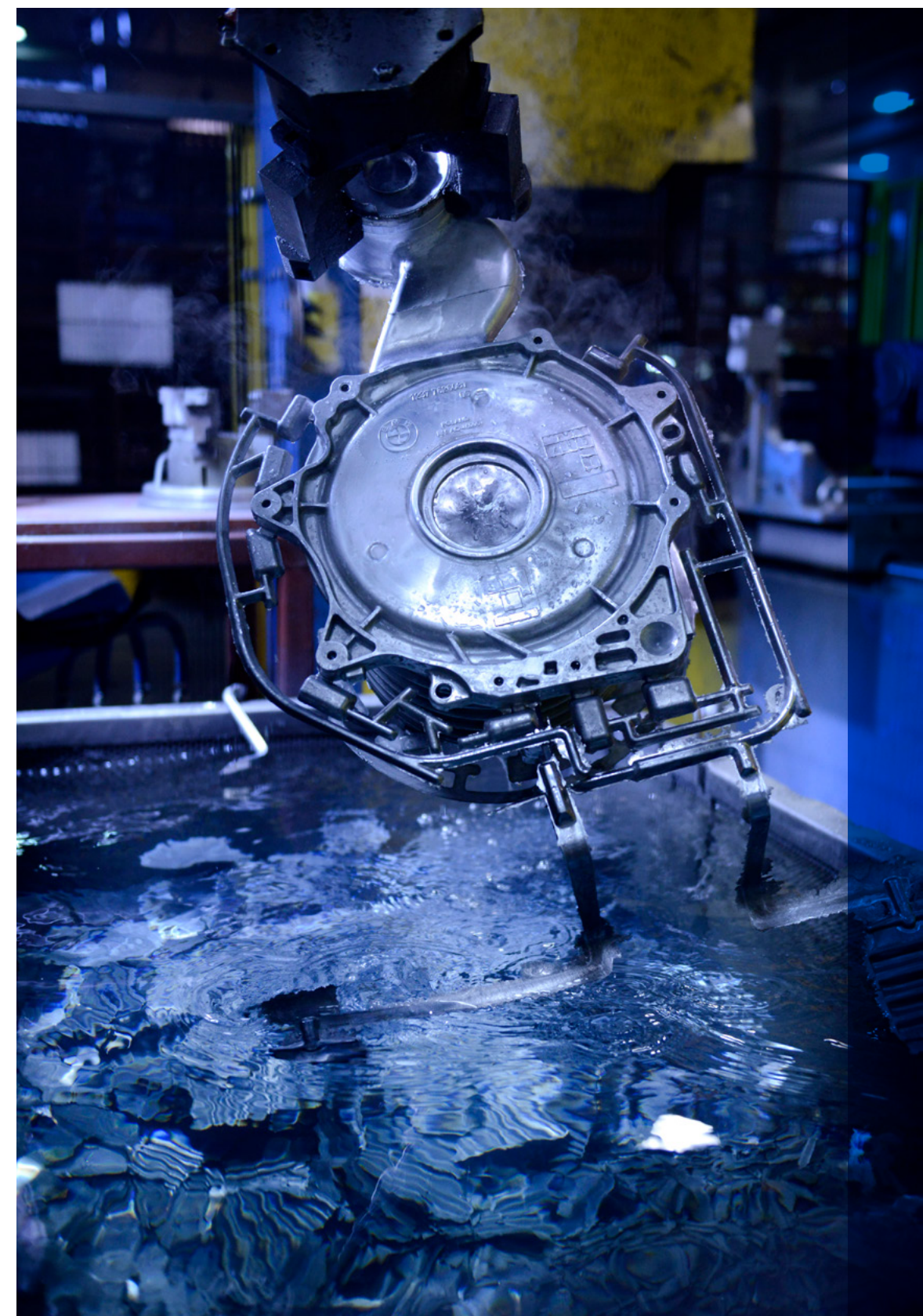
Only water drawn from underground and third-party sources is used for sanitary, washing, and cooling processes. All wastewater is treated by either on-site or off-site municipal wastewater treatment plants. Some process water is pretreated on-site before discharge into the municipal system in compliance with applicable regulations.

Water withdrawal and consumption in 2020 are shown below:

Water in k Megaliters	2020	2019	2018
Withdrawn	7.60	8.25	9.16
Discharged	6.90	7.32	8.13
Consumed	0.72	0.93	1.03

Water risk assessment

As part of the Company's commitment to improving its overall environmental performance, it has conducted a water-risk assessment using the Aqueduct tool, developed by the World Resources Institute, identifying the water-stressed zones where the Company has operations. Only two water-stressed zones in two different river basins were identified: one in Mexico and one in India. Water withdrawals from these zones represent 8% of the Company's total withdrawals.



4 QUALITY
EDUCATION8 DECENT WORK AND
ECONOMIC GROWTH

Social well-being

SDG 4: Quality Education; SDG 8: Decent Work and Economic Growth
Material Aspect: ESG Management

Internal well-being

Material Aspects: Labor Relations; Health and Safety
GRI Standard: 102-8

Nemak seeks to continuously develop a strong culture that is based on its core values, which drive everyday decision-making. Employee development and training is seen as a key enabler to ongoing improvement, engagement and value creation.

In 2020, the workforce was distributed as follows:

Number of employees by type of contract

	Men	Women	Total
Permanent	20,182	1,930	22,112
Temporary	307	21	328
Full-time	20,461	1,940	22,401
Part-time	27	11	38

Number of employees by region

Region/Country	Men	Women	Total
Asia	1,170	115	1,285
Europe	6,513	670	7,183
Mexico	10,015	617	10,632
South America	931	54	985
USA / CAN	1,859	495	2,354
Total	20,488	1,951	22,439

Number of employees by age

Group	Younger than 30	Between 30 and 50	Older than 50	NA	Total
Men	5,196	11,732	3,439	121	20,488
Women	432	1,187	326	6	1,951
Total	5,628	12,919	3,765	127	22,439

22,439

2020 Total
employees

20,488 Men

1,951 Women



Health and safety

Material Aspect: Health and Safety
GRI Standards: 403-1 to 403-10
SAM S&P 3.7 v2020

Through the development and implementation of diversity, health and safety, and other policies, the Company assures compliance with protocols that boost employees' personal and professional development in a safe and well-structured environment.

Nemak has implemented an occupational health management system that includes health monitoring of employees, risk identification and mitigation, safe work practices, and employee training. The expected outcomes of the program are continued improvement in the ratio of issues identified through observations and assessments versus those identified as the result of an incident; reduction in the number and severity of injuries; compliance with legal obligations; improved employee engagement, and lowering the impact of errors and mistakes.

In 2020, Nemak invested more than US\$11.5 million in health and safety programs and initiatives, which included US\$4.1 million in COVID-19 controls.

In 2020, Nemak had zero work-related illnesses and zero lost-time incidents at nine sites. The following table compares incidents and rates in 2019 and 2020.

Metric/KPI	2019	2020
TRI (cases)	443	296
TRIR*	1.86	1.57
LTC (cases)	131	87
LTCR**	0.55	0.46
Lost days	3,621	2,429
DIR***	15.19	12.92

*Total Recordable Incident Rate per 100 employees

**Lost Time Case Rate per 100 employees

***Disability Rate per 100 employees

Key components of the Nemak Occupational Health and Safety program are:

- Physical examinations and occupational health medical evaluations (Health Risk Assessments)
- On-site health services, such as nurses and doctors
- Hygienic, psychosocial, working condition measurements
- Programs to prevent COVID-19 outbreaks and transmission: cleaning, personal hygiene, education and training
- Tools for identifying risks include:
 - Unsafe inventory
 - Risk assessments
 - Weekly inspections
 - Near-miss and accident evaluations
- Competent training and knowledge checks
- Management review of Risk Assessments and Incident Reports
- Union, Works Council, and Health and Safety Committee involvement

- Mailbox and hotline
- Reporting near-misses, incidents, non-conformities, and improvement suggestion programs

Nemak ensures the quality of health services and the administration of controls through professional training and development, meetings, audits, fulfilling legal obligations, and through health authorities' accreditations. The Company keeps its workers' personal health-related information confidential in compliance with internal policies and other legal requirements (HIPAA and ADA in the USA, GDPR in Europe, etc.).



Employee experience

Material Aspect: Attracting and Retaining Talented Individuals
GRI Standards: 404-1 to 3
SAM S&P 1.4.2

Nemak offers its employees a series of benefits that go well beyond the minimum regulations of the countries where it operates, ensuring that remuneration practices are based on fair criteria such as skills, tenure, or job requirements.

Nemak's Talent Management team helps the Company to attract and retain highly skilled people. In 2020, the Company invested US\$1.8 million in training and developing technical talent in Nemak's core processes, ensuring a high level of functional skills, leadership development, and teamwork in various strategic areas, while helping 228 employees attend courses with paid scholarships for capacity-building in external institutions.

Some of the programs implemented throughout the year were aimed at ensuring a healthy and safe and work environment, which allowed the Company to reactivate operations post-lockdown in a safe and orderly manner, ensuring compliance with the health standards to prevent COVID-19 from spreading in the workplace.

The average training hours provided per employee were as follows:

	2020	2019	2018
Women	9.4	17	16
Men	11.3	14	18.3
Unionized	6	47	16
Non-Unionized	8.6	11.3	15
All Employees	13	19	16.2



As part of its training and development strategy, Nemak seeks to fill critical and management positions with internal candidates; in 2020 the percentage of positions filled by internal candidates was 40%. Another important part of the talent development agenda is for employees to receive feedback on a regular basis. A performance management process is in place with a clear structure for objective settings, mid-term review, and performance evaluation. Approximately 90 percent of Nemak's administrative personnel received performance evaluations during the year. They were further supported by regular dialogues about career development, as well as individual growth plans to boost employee success, according to individuals' strengths and aspirations.



Communities

Material Aspects: Community Engagement and Development

SAM S&P 3.6 v2020

Community engagement responsibilities

One of the four pillars of the Company's sustainability model is to create sustainable value for the communities where it operates. As a good corporate citizen, it implements social, cultural and community projects as a core element of its strategy. Nemak sees itself as a local driver of growth, contributing to structural development, education, and equal opportunities in the communities where it is present.

Social and community support activities

GRI Standards: 413-1, 413-2

In 2020, due to the implementation of preventive measures to combat the spread of COVID-19, Nemak's plants had to suspend their community engagement activities. Despite the crisis, several initiatives still took place during the year:

- The Alabama plant participated in the SAFE initiative, providing training and education to family members to obtain work in Sylacauga. In November, SAFE celebrated its 20th anniversary at the SAFE Community Garden in Sylavon Court, launching "A SAFE Investment" program, with Nemak making the first donation to the program with an investment of US\$20,000. The association

with SAFE can be traced back to two of Nemak's core values: respect and responsibility.

- There were work programs with young people to support career days for universities, as well as courses to learn new technologies. Additionally, the Company granted sponsorships and reached collaboration agreements with several academic institutions to promote art and sports.
- Nemak Argentina promoted talks about suicide prevention with teenagers. Around the world, fifty schools were supported, benefiting more than 7,800 students.

The Company continued to support institutions and programs such as firefighters, United Way, Adopt a Road, and more than 40 social assistance institutions. In total, Nemak donated more than US\$2.3 million, benefiting approximately 140,000 people. Eight hundred and twenty-one employees

volunteered, all while respecting social distancing and COVID restrictions, in order to aid their communities.

In Mexico, Nemak supported the ALFA Fundación and the Red Cross, donating more than US\$1.3 million in 2020, benefiting more than 10,000 people. During the year, Nemak was recognized in Mexico as a Socially Responsible Company in a national-level assessment of corporate social responsibility practices conducted by Centro Mexicano para la Filantropía (CEMEFI) and Alianza por la Responsabilidad Social Empresarial.

The Nemak Győr plant in Hungary completed construction of the Nemak Ice Hall, which was built so the community can have a local place to play hockey, investing US\$5.6 million over the last four years. More than 300 hockey players and 50,000 community members benefit from this new facility. Nemak also has an agreement with the municipal government of Győr to promote economic development in the community.



9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE

Economy and corporate governance

SDG 9: Industry, Innovation and Infrastructure

Material Aspects: Relations with Shareholders; Engagement with Value Chain; Sustainable Management

Nemak expects its managers and employees to comply with existing laws and regulations, and to respect ethical standards. In order to meet these requirements, the Company is always working to improve its compliance and risk-management systems, while also investing in training and compliance initiatives so that all employees are aware of the standards with which they are expected to comply.

Ethics and integrity

GRI Standards: 205-1 to 3

In 2020, 94% of the Company's employees received Code of Conduct training. Nemak works diligently to enforce it and continuously provides training to reinforce its commitment to integrity and compliance.

In 2020, Nemak released an electronic version of the Conflict of Interest Letter through its internal Learning Management System (LMS) for all white-collar employees, receiving answers from 96% of employees worldwide. This exercise will continue to be part of the LMS tool for all new employees during the orientation period. Attached to this letter was a brief overview of the Code of Conduct, as well as an explanation regarding types of issues that might present a conflict of interest.

The Employee Code of Conduct states that Nemak does not tolerate employees or contractors engaging, ordering, authorizing, promising, conspiring or inducing corrupt or fraudulent practices, either directly or through third parties. Anti-corruption measures are enforced by Governance and Compliance, Human Resources, and Internal Control teams in the event of any confirmed complaint.



An anti-corruption training for all employees was developed and will be released globally in 2021.

Workforce trained in core compliance pillars:

South America	Europe	Mexico	Asia	Global Staff	USA/CAN	Total
100%	98%	96%	95%	93%	92%	96%

Global supplier code of conduct

GRI Standards: 308-1, 308-2, 407-1, 408-1, 409-1, 414-1, 414-2

Human Rights requirements, such as prohibition of forced and child labor, freedom of association, and anti-discrimination, among others, are an integral part of the compliance guidelines. In 2020, no violation to these fundamental rights was identified in Nemak's operations or in the operations of its supply chain.

Nemak also works with peer companies, chambers and associations to form beneficial and collaborative alliances working towards the same goals. In 2020, Nemak participated in 61 chambers and associations, serving as part of the Board or strategic committees in several instances.





Value chain

SDG 12: Responsible Consumption and Production
Material Aspects: Sustainable Management;
Engagement with the Value Chain
GRI Standards: 308-1, 308-2, 407-1, 408-1, 409-1,
414-1, 414-2

Sustainable Purchasing Policy and Global Business Code for Suppliers

In order to accelerate the shift from a linear to a circular economy approach, Nematik seeks to establish clear guidelines and means of engaging with its value chain around its sustainability strategy.

With the Sustainable Purchasing Policy, the Company commits to:

- Respect and uphold legal regulations for doing business with suppliers
- Through supplier onboarding processes, the Purchasing department establishes mandatory sustainability requirements for suppliers, including but not limited to: acceptance and adherence to Nematik's Business Code for Suppliers, Human Rights Global Policy, Anti-Corruption Global Policy, and other policies applicable to suppliers
- Consider sustainable aspects such as economic, social, ethical and environmental practices as part of the criteria for supplier selection
- Set annual objectives to improve both Nematik's and suppliers' sustainability practices

- Annually assess Nematik's supplier base on sustainability topics based on criticality analysis and priorities according to the supplier management process
- Identify, track and take action on any potential risk based on the supplier risk-management process
- When feasible, support locally based community suppliers

Strategic approach

Nematik's initiatives aim to embed world-class performance standards across all links in the supply chain, while reducing environmental impacts. The Vice President of Purchasing and Sustainability is responsible for the Company's sustainable purchasing performance, supported by the Global Business Management Team. Through its approach to responsible sourcing, Nematik identifies and assesses the sustainability practices of its supply chain to drive decision-making.

In addition, the Global Business Code for Suppliers reflects the Company's commitment to a culture of integrity, honesty, and accountability, outlining the basic principles that all suppliers are expected to follow when doing business with Nematik. Acceptance of the Code is mandatory, and is included as part of the terms and conditions of 100% of all purchasing orders globally. This Code includes guidelines in business practices, ethics compliance, environment and product safety, human rights and working conditions. The Company

expects its suppliers to cascade this expectation through their own supply chains.

This Code, the Sustainable Purchasing Policy and other relevant documents are available at <https://www.nematik.com/suppliers>.

Nematik has four main supplier-support programs that enable them to perform more sustainably and responsibly:

Program	Result in 2020
Supply financing program	Suppliers benefited from US\$298 million
Sustainability round table	Nematik and the 34 participating suppliers shared best practices, experiences and lessons learned from the process of measuring CO2 footprint
EcoVadis	Fifty-five suppliers were assessed by EcoVadis, and all received tailor-made corrective action plans designed to help them address opportunities for improvement
Scope 3 emissions measuring	Nematik regularly reaches out to suppliers in order to identify its carbon footprint. In the process, the Company helps them identify opportunities to minimize their own carbon footprint

The percentage of local suppliers hired in 2020 was over 70%.



Operating summary

A challenging 2020 for the global automotive industry due to the spread of COVID-19 served to highlight Nemak's agility and adaptability to changing market and industry conditions.

The Company successfully weathered the effects of historic light-vehicle production stoppages and plunging light-vehicle sales in the first half of 2020, posting an equally historic comeback in the second half of the year following a gradual emergence from a global lockdown, as suppliers raced to help OEMs meet pent-up customer demand for light vehicles.

Despite disrupted markets, idled supply chains, and lower sales in the automotive industry in the first half of the year, starting in the second half, the operating efficiencies Nemak had put into place began to reflect margin improvements.

Moreover, Nemak continued to launch new products for e-mobility and structural applications in Europe, North America, and Asia. For the full year, the Company generated approximately US\$175 million in revenue in this segment.

Starting in late spring and continuing through the end of the year, the broader automotive industry experienced sustained recovery in both light-vehicle production and sales. Similarly, Nemak volume showed a positive sequential trend across its regions; whereas volume in North America

and Europe returned to pre-COVID levels in the second half of the year, Rest of the World benefited mainly from the Chinese market's relative outperformance starting in the second quarter.

In North America, light-vehicle sales finished at 14.6 million units, which was only 15% lower year-on-year, underpinning the recovery in retail sales as demand surged post-lockdown. In Europe, the Seasonally Adjusted Annual Rate (SAAR) for light-vehicle sales decreased 21% y-o-y, but as in other regions, the industry recovery supported improvement on a sequential basis.

Notwithstanding the above-mentioned recovery over the second half of the year, Nemak volume finished at 35.1 million equivalent units, down 21% compared to the previous year. In turn, revenue was US\$3.2 billion, a 22% reduction mainly on lower volume in the first half of the year.

EBITDA for the year was US\$432 million, 30% lower y-o-y, as operating efficiencies obtained were not enough to compensate for the combined effect of the spring lockdowns due to the pandemic and non-recurring severance payments and other COVID-related expenses incurred during the year. In turn, the net result for the year was US\$-34 million, down compared to US\$130 million in 2019 mainly due to the same factors affecting EBITDA together with non-cash exchange rate effects on financial results.

CAPEX was US\$269 million for the year, as Nemak worked in tandem with its customers to make investments to support new product launches in all regions.



Regional operations

North America

Nemak's implementation of operational efficiencies bore fruit in North America, yielding a 25% improvement in unitary margins in the back half of the year, even though volume finished slightly lower in that span. Annualized light-vehicle sales in the US were down for the year, although pent-up demand from the first half of the year mitigated the decline. Light-vehicle production for the region as a whole was also down, due mainly to the production stoppages earlier in the year associated with the initial pandemic spread.

Production continued apace in the second half, however, as manufacturers sought to bridge the gap from the earlier part of the year, ending 2020 at 13.0 million units, down from 16.3 million units in 2019.

Additionally, the Company continued to expand its manufacturing footprint dedicated to e-mobility applications in the region. This included initiating series production of assembled battery housings for full-electric applications at a greenfield facility in Nuevo León, Mexico, and adapting existing capacity in Alabama, USA for the production of battery housings for plug-in hybrid applications.

For full-year 2020, EBITDA in the region was down 32%, mainly on 24% lower volume due principally to effects of customer plant closures. Full-year revenue was consequently US\$1.6 billion on the year, down 26% from 2019.

Europe

Industry trends ended the year generally positive, with automakers producing at close to pre-pandemic levels in an effort to keep up with end-consumer demand. Despite the improved macroeconomic environment along with growth in the electric vehicle segment, for the year light-vehicle sales and production were 21% and 22% lower y-o-y, respectively. In turn, Nemak volume was down by 3.1 million units, while revenue decreased 20% y-o-y due to lower volume. EBITDA decreased 29%, as efficiency gains only partially offset effects of lower volume linked to the lockdowns.

During the year, Nemak continued to ramp up production in the region of business awarded in previous years in its e-mobility and structural applications segment, primarily battery housings for plug-in hybrid applications of European OEMs.



Rest of World

The Rest of the World region for Nemak is comprised of the operations in South America (mostly Brazil) and Asia (mostly China). Whereas China maintained higher light-vehicle sales and production on a y-o-y basis for most of the year, Brazil started to show signs of recovery only in the fourth quarter. Volume for Rest of the World was 4.2 million equivalent units, an increase of 6% from 2019.

Revenue in the region was US\$366 million, down 2% over 2019, due mainly to lower volume associated with effects of the pandemic lockdowns in the first half of the year. These headwinds, combined with the effects of launching expenses in China in the second half of the year, outweighed benefits of operating efficiencies in both China and Brazil, as EBITDA finished 21% lower.



Board of directors

GRI Standards: 102-18, 102-22

Armando Garza Sada (3)

Chairman of the Board of ALFA, S.A.B de C.V.

Nemak Board Member since April 1999. Chairman of the Boards of ALPEK and NEMAK. Member of the Boards of AXTEL, BBVA México, CEMEX, Grupo Lamosa, and Liverpool.

Álvaro Fernández Garza (3)

President of ALFA, S.A.B. de C.V.

Nemak Board Member since March 2010. Chairman of the Board of Universidad de Monterrey (UEM). Member of the Boards of Citibanamex, Cydsa, Grupo Aeroportuario del Pacífico, and Vitro.

Juan Carlos Calderón Rojas (2)

Vice President of Experience and Engagement of Employees at Sigma Alimentos Corporativo, S.A. de C.V.

Nemak Board Member since June 2015. Member of the Boards of Coparmex Nuevo León and Grupo Franca.

Robert J. Fascetti (1)

Former Vice President of Powertrain Engineering at Ford Motor Company

Nemak Board Member since December 2005. He has more than 29 years of powertrain and product development experience at Ford Motor Company.

Michael W. Felix (2)

Director of Manufacturing – North America at Ford Motor Company

Nemak Board Member since February 2020. Mr. Felix has more than 30 years of experience in manufacturing engineering and global strategy development with Ford Motor Company.

David Filipe (2)

Vice President of Global Vehicle Hardware Models at Ford Motor Company

Nemak Board Member since December 2017. Mr. Filipe has more than 29 years of powertrain and vehicle programs experience with multiple global assignments at Ford Motor Company. He leads all vehicle hardware development and systems integration of exterior, interior, underbody, ICE powertrain, and electrified modules.

Eugenio Garza Herrera (1A)

Chairman of the Board of Xignux, S.A. de C.V.

Nemak Board Member since June 2015. Member of the Boards of Corporación EG, Banco Nacional de México, S.A. (Citibanamex), Endeavor, Cydsa, México Evalúa, Arcelor Mittal México, Akaan, the regional board of Banco de México, and the Roberto Garza Sada Center for Art, Architecture and Design of UDEM. Chairman of the Boards of Pak2Go and Maixico. He presides over the Consejo

Consultivo Norte of Citibanamex and the Transparency, Effective Governance, and Regulatory Improvement Commission of Consejo Nuevo León para la Planeación Estratégica, and he is a member of the Development Committee of MIT Corporation. He is also a member of the Board of Trustees, the Institutional Governance Committee, and Chairman of the Development Committee of ITESM.

Fabiola Garza Sada (2)

Investor

Nemak Board Member since June 2015. Member of the Board of ALFA Fundación.

Eduardo Garza T. Fernández (1A)

President of Grupo Frisa Industrias

Nemak Board Member since June 2015. Member of the Board of Grupo Lamosa. He also serves on the Boards of ITESM, BBVA México, Corporación EG, Consejo Nuevo León para la Planeación Estratégica, and Grupo Ragasa.

Alfonso González Migoya (1A)

Managing Partner of Acumen Empresarial, S.A. de C.V.

Nemak Board Member since June 2015. Member of the Boards of FEMSA, Coca Cola FEMSA, Controladora Vuela Compañía de Aviación, the Mexican Stock Exchange, Banregio Grupo Financiero, Invercap, Javer, and Cuprum.

Gary Lapidus (1)

Independent Investor and Consultant

Nemak Board Member since June 2015. Former Institutional Investor-ranked automobile and auto parts Senior Equity Research Analyst at Goldman, Sachs & Co. and Sanford C. Bernstein & Co. Previously, Mr. Lapidus was a Principal with the management consulting firm Booz-Allen Hamilton.

Alejandro Ruiz Fernández (2)

President of Pronto Proyectos, S.A. de C.V.

Nemak Board Member since June 2015. Board Member of Pronto Proyectos and Constructora e Inmobiliaria Malsa.

Adrián G. Sada Cueva (1)

President of Vitro, S.A.B. de C.V.

Nemak Board Member since June 2015. Member of the Boards of Vitro, Grupo Financiero Banorte, and Dallas Museum of Art. President of CAINTRA. Member of Organización Vida Silvestre.

Carlos Jiménez Barrera

Secretary

¹ Independent Board Member

² Patrimonial Board Member

³ Related Patrimonial Board Member

^A Audit and Corporate Practices Committee



Management team

Armando Tamez
CEO



Knut Bentin
Mexico Business Unit
Director



Klaus Lellig
Europe and Asia
Business Unit Director



Luis Manuel Peña
USA, Canada & South America
Business Unit Director



Dirk Barschkett
Vice President of Sales
and Marketing



Rolf Deusinger
Vice President of Human
Resources



Alberto Sada
Chief Financial Officer



Ernesto Saenz
Vice President of Manufacturing
& Product Development



Marc Winterhalter
Vice President of Purchasing
& Sustainability



Corporate governance

GRI Standards: 102-18, 102-19, 102-20, 102-22, 102-24, 102-25, 102-26

Controladora Nemark and Nemark operate in accordance with the Code of Principles and Best Corporate Governance Practices in place in Mexico since 2000. The purpose of the Code is to establish a frame of reference for corporate governance and thereby increase investor confidence in Mexican companies.

Once a year, all companies listed on the Mexican Stock Exchange (Bolsa Mexicana de Valores, S.A.B. de C.V. - BMV) must disclose the extent to which they adhere to the Code by answering a questionnaire. The responses of the different companies may be consulted on the BMV's website.

As a company that only recently began operations, and which is listed on the BMV as of December 14, 2020, Controladora Nemark will present the questionnaire in compliance with that Code in May of this year.

A summary of Nemark's principles of corporate governance is presented below, reflecting the Company's responses to the questionnaire in May 2020, and updated where necessary.

- 1.** Nemark's Board of Directors is comprised of thirteen members, six of whom (46%) are independent board members. This annual report provides information on all board members, identifying those who are independent and their participation in the Audit and Corporate Practices Committee.
- 2.** In order to correctly perform its functions, Nemark's Board of Directors is advised by the Audit and Corporate Practices Committee. The Committee Chairman is an independent board member, as are all members of the Committee.
- 3.** The Board of Directors of Nemark convenes four times per year. Meetings of the Board may be called by the Chairman of the Board, the Chairman of the Audit and Corporate Practices Committee, the Secretary of the Board, or at least 25% of its members. At least one such meeting every year is dedicated to defining the Company's medium- and long-term strategies.
- 4.** Members inform the Chairman of the Board of any conflicts of interest that may arise, and refrain from participating in any related discussions. Average attendance at Nemark's Board meetings was 88% in 2020.

5. For a large part of fiscal year 2020, the meetings of Nemark's Board of Directors and the Audit and Corporate Practices Committee were held by videoconference, due to the pandemic (COVID-19) caused by the SARS-CoV-2 virus. The videoconferences allowed the board members to interact with each other effectively, given the availability of audio and video functions.

6. Nemark's Audit and Corporate Practices Committee evaluates and issues recommendations to the Board of Directors on matters such as selecting and determining the fees to be paid to the external auditor, coordinating with the Company's internal audit area, and studying accounting policies, among others.

7. Additionally, Nemark's Audit and Corporate Practices Committee issues recommendations to the Board on matters related to corporate practices, such as employment terms and severance payments for senior executives, and compensation policies, among others.

8. Nemark has internal control systems with general guidelines that are submitted to the Audit and Corporate Practices Committee for its opinion. In addition, the external auditor validates the effectiveness of the internal control systems and issues reports thereon.

9. Nemark's Board of Directors is advised by the Department of Administration and Finance regarding the feasibility of investments, strategic positioning of the Company, alignment of investing and financing policies, and review of investment projects.

10. Nemark has a department specifically dedicated to maintaining an open line of communication between the Company and its shareholders and investors. This ensures that they have the financial and general information they require to evaluate the Company's development and progress. To this end, Nemark uses press releases, notices of material events, quarterly results conference calls, investor meetings, and its website, among other communication channels.

11. Nemark promotes good corporate citizenship and has a mission, vision and values, and code of ethics that are promoted within the organization.



Consolidated financial statements

Consolidated Financial
Statements as of and for
the Years Ended December
31, 2020 and 2019, and
Independent Auditors' Report
Dated January 31, 2021

Nemak, S. A. B. de C. V. and Subsidiaries (Subsidiary of Controladora Nemak, S. A. B. de C. V.)

Independent Auditors' Report and Consolidated Financial Statements

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

TABLE OF CONTENTS

39	Management's Discussion and Analysis of Results ("MD&A")
43	Independent Auditors' Report
47	Consolidated Statements of Financial Position
48	Consolidated Statements of Operations
49	Consolidated Statements of Comprehensive Income
50	Consolidated Statements of Changes in Stockholders' Equity
51	Consolidated Statements of Cash Flows
52	Notes to Consolidated Financial Statements



Management's Discussion and Analysis of Results ("MD&A")

2020

The following report should be considered in conjunction with the Letter to Stockholders (pages 6 – 9) and the Audited Consolidated Financial Statements (pages 43 – 91). Unless otherwise indicated, amounts are expressed in millions of Mexican pesos for information from 2018 to 2020. Percentage changes are presented in nominal terms. In addition, some amounts are expressed in millions of US dollars (US\$) and millions of euros (€).

The financial information included in this Management's Discussion & Analysis refers to the last three years (2018, 2019 and 2020), and is presented in accordance with International Financial Reporting Standards (IFRS). Furthermore, this information has been expanded in certain chapters, in order to include three years in compliance with the General Provisions applicable to Public Companies and Other Participants of the Securities Market, as issued by the National Banking and Securities Commission (CNBV, as per the Spanish acronym) through December 31, 2020.

San Pedro Garza García, N. L., January 31, 2021.

ECONOMIC ENVIRONMENT

The global economic environment was impacted by the COVID-19 health crisis. During the year, risks persisted for the financial markets associated with the control of the pandemic, economic policy decisions in developed countries, the geopolitical environment and trade tensions. During the first half of the year, the world faced a significant slowdown in economic activity, with a gradual recovery in the second half. Countries such as the United States implemented tax and monetary stimuli to support economic activity during the crisis. According to the International Monetary Fund (IMF), the countries most affected by this crisis were Argentina, Peru, Spain, Mexico, and South Africa. In Mexico, Gross Domestic Product (GDP) suffered historic contractions in April and May; beginning in June, it started to recover gradually. The Mexican currency was highly volatile throughout the year, ending with a depreciation compared to the previous year; however, it is one of the currencies that showed the greatest recovery by year-end.

The performance of GDP and other variables in Mexico and globally, which are key to better understand the results of Nematik, are described in the following paragraphs:

Mexico's GDP in 2020 dropped by -8.5%^(a) (estimated), lower than the -0.1%^(a) in 2019. Mexico's consumer inflation was 3.2%^(b) in 2020, higher than the 2.8%^(b) in 2019. The Mexican peso had annual nominal depreciation of 5.5%^(c) in 2020, compared to appreciation of 4.0%^(c) in 2019. In real terms, annual average valuation of the Mexican peso against the dollar slid from -0.5%^(d) in 2019 to -2.7%^(d) in 2020.

In accordance with the policies agreed upon by Banxico in 2020, the average The Interbank Equilibrium Interest Rate (TIIE) for 2020 was 5.7%^(b) in nominal terms, compared to 8.3%^(b) in 2019. In real terms, the annual cumulative rate was 2.4%^(b) in 2020, compared to 4.8%^(b) in 2019.

For 2020, the nominal three-month LIBOR rate in US dollars, at an annual average rate was 0.7%^(b) in 2020, compared to 2.3%^(b) in 2019. Considering the incorporation of the nominal appreciation of the peso against the dollar, the LIBOR rate in constant pesos went from -1.2%^(a) in 2019 to 8.7%^(a) in 2020.

Sources:

(a) Instituto Nacional de Estadística, Geografía e Informática (INEGI) (Equivalent of Census Bureau) on January 30, 2021.

(b) Banco de México (Banxico).

(c) Banxico. Exchange rate to settle obligations denominated in foreign currency payable in Mexico.

(d) Proprietary calculations with INEGI data, reciprocally with the US, considering consumer prices.



RESULTS

2020 vs. 2019 (numbers are in Mexican pesos unless otherwise indicated)

During 2020, Nematik harnessed a variety of initiatives across its regions to safeguard the health and well-being of its people as well as the long-term sustainability of its business amidst the COVID-19 pandemic. These efforts enabled the Company to make its cost structure leaner and more efficient while continuing to meet its customers' supply needs, positioning it to better capitalize on industry recovery and deliver improved results in the second half of the year.

Total Revenue was \$66,325 for the year, 14.3% lower than the \$77,363 reported in 2019. This decrease was due mainly to effects of the pandemic, as temporary shutdowns across the global automotive industry resulted in a reduction in light-vehicle sales and production, which in turn weighed on the Company's volume. While light-vehicle production picked up notably in the second half of the year, as OEMs rushed to restore inventories, which had dropped to historically low levels during the shutdowns, there was still an overall decrease for the full year.

Cost of Goods Sold (COGS), which includes depreciation of fixed assets, was \$58,343, down 12% from the \$66,276 reported in 2019. This was mainly due to a combination of lower volume and reductions in costs and expenses following restructuring initiatives implemented during the first half of the year.

Sales, General and Administrative (SG&A) Expenses fell to \$4,980, compared to \$5,328 reported in 2019, again on lower volume and efficiencies.

Operating Income for the year was \$1,967, down from the \$4,964 reported in 2019, due mainly to lower revenue and non-recurring severance payments and other COVID-related expenses incurred during the year, which outweighed benefits of efficiencies. EBITDA (Operating Income plus Depreciation and Amortization, plus/minus Other Non-Cash Charges) was \$8,926, down 25.4% from the \$11,958 reported in 2019, basically as a result of the same factors affecting Operating Income.

There was a Net Financial Loss in 2020 of \$2,690, compared to the \$1,367 loss reported in 2019. This variation was largely attributed to exchange rate fluctuations between the US dollar, Mexican peso, and the euro.

Income Taxes for 2020 were \$181, down 84% against the \$1,145 reported in 2019, mainly due to the lower net taxable result.

Net Result reported was \$(933), over the \$2,493 reported in 2019, driven by the combination of non-cash exchange rate effects and lower operating income.

Capital expenditures for the year were \$5,655, 14.5% lower than the \$6,616 in 2019, as Nematik conserved cash and worked in tandem with its customers to defer non-essential investment in light of pandemic-related effects on the industry.

Nematik's Net Debt at the close of the year was \$24,468 (US\$1,227), higher than Net Debt of \$22,718 (US\$1,206) in 2019. By year-end, the Company had repaid most of the credit lines it had withdrawn in the first half of the year to increase its liquidity during the pandemic. Financial ratios were: Net Debt to EBITDA, 2.8 times for the last twelve months; and Interest Coverage, 5.6 times. When adjusted for non-recurring items associated with severance payments and other COVID-related expenses incurred during the year, these ratios were 2.5 times and 6.0 times, respectively.

2020 HIGHLIGHTS

NEW CONTRACTS

In 2020, Nematik signed contracts worth a total of approximately US\$700 million in annual revenue across its product lines, which break down as follows: US\$590 million to produce powertrain applications, and US\$110 million to produce e-mobility and structural applications.

DEVELOPMENT OF E-MOBILITY AND STRUCTURAL APPLICATIONS BUSINESS

Nematik continued to ramp up its production of e-mobility and structural applications, while at the same time winning incremental business to further strengthen its foundation for long-term growth in this segment. The main highlights on this front included:

- The Company's order book in its e-mobility and structural applications segment reached approximately US\$850 million annually.
- Initiating series production of battery housings for the Ford Mustang Mach-E at Nematik's new Electric Mobility Center in Nuevo León, Mexico.
- Adapting existing capacity spanning Europe, North America, and Asia to support the production of electric vehicle applications of its customers.



START OF TRADING OF CONTROLADORA NEMAKK

On August 17, 2020, shareholders of Nemak's parent company, ALFA, approved a proposal to transfer their entire share ownership in Nemak to a new entity to be listed on the Mexican Stock Exchange: Controladora Nemak, S.A.B. de C.V. ("Controladora Nemak"). As a result of this transaction, shareholders received one share of Controladora Nemak for each of their ALFA shares on December 14, 2020, the first day of trading of Controladora Nemak.

INDUSTRY RECOGNITION

Nemak was chosen as a recipient of the General Motors Supplier of the Year award for the third consecutive year. As a 16-time winner, Nemak is one of the most recognized suppliers in the 28-year history of the award.

Nemak also received the Volkswagen Group Award in the category "Launch of the Year," in recognition of the Company's performance in the development, innovation, and manufacturing of battery housings for plug-in hybrid electric vehicles.

Finally, for the second consecutive year, Nemak was selected to be an index component of the Dow Jones Sustainability Indices (DJSI) as well as the London Stock Exchange's FTSE4Good Index Series. It remains part of the Dow Jones Sustainability MILA Pacific Alliance Index, which is comprised of companies with leading economic, social, and environmental practices in Latin America. The DJSI is among the first set of global indices to track the largest and leading sustainability-driven publicly listed companies.

These awards exemplify Nemak's customer focus, and its commitment to continue delivering leading-edge sustainable mobility solutions.

EFFORTS TO PROTECT EMPLOYEES AND ADAPT TO EFFECTS OF THE COVID-19 PANDEMIC

Throughout the year, Nemak remained focused on safeguarding the health and well-being of its people and communities, and ensuring business continuity amidst the COVID-19 pandemic.

In January, Nemak created a task force comprised of members of top management and health and safety experts, with the purpose of overseeing the implementation of best practices to help reduce the spread of the virus. The Company implemented a series of measures toward this end, including checkpoint screening, ongoing facility disinfection, and physical distancing protocols, among others. Additionally, the Company maintained close contact with its stakeholders all over the world, including customers, suppliers, non-profit organizations, and government agencies, in order to identify and implement additional actions in support of worldwide efforts to minimize virus transmission.

At the same time, Nemak intensified measures to optimize costs, expenses, and cash flow in the face of light-vehicle production cuts among certain customers. These include postponement of non-essential investments, implementation of flexible production schemes, and idling production at certain sites on a temporary basis. The Company also temporarily ceased production at certain plants and production lines in accordance with emergency declarations issued in certain jurisdictions where it operates.

Taken together, these efforts helped lay the groundwork for a successful ramp-up of production at Nemak locations worldwide, particularly in the second half of the year, as OEMs restarted light-vehicle production following the easing of pandemic-related lockdowns.

RESULTS

2019 VS. 2018 (numbers are in Mexican pesos unless otherwise indicated)

Total Revenue was \$77,223, down 14.4% from the \$90,327 reported in 2018, mainly due to lower volume and prices of aluminum, Nemak's main raw material. As explained in previous reports, changes in the price of aluminum are passed on to customers according to contractually established formulas. Meanwhile, the decline in volume was largely attributed to lower light-vehicle production among certain OEM customers.

Cost of Goods Sold (COGS), which includes depreciation of fixed assets, was \$66,276, down 13.8% from the \$76,878 reported in 2018, mainly as a result of lower volume and aluminum prices.

Sales, General & Administrative (SG&A) expenses increased to \$6,122, up 8.8% compared to the \$5,626 reported in 2018.

Operating Income during the year was \$4,964, down 36.5% from the \$7,823 recorded in 2018. This variation is mainly explained by non-recurring effects derived from the planned closure of the plant in Windsor, Canada, lower revenues, and the impact of the depreciation of the euro against the US dollar, which more than offset the benefit of operating efficiencies.

EBITDA (Operating Income plus Depreciation and Amortization, plus/minus other Non-Cash Charges) was \$11,958 in 2019, down 15.2% over the \$14,104 recorded in 2018. This variation was largely due to lower operating income, as mentioned above, taking into account that this indicator excludes the asset impairment charge associated with closure of the Windsor plant.



Net Financial Result showed a loss of \$1,367, down 38.4% compared to the \$2,200 loss reported in 2018. This variation was mainly attributed to the exchange rate fluctuations between the US dollar, Mexican peso, and the euro.

Income Taxes were \$1,145, down 49.7% against the \$2,276 reported in 2018, mainly due to the lower net taxable result.

Net Income was \$2,493, down 28% compared to the \$3,464 reported in 2018, as the combined effect of lower income taxes and financial expenses was partially offset by lower operating income.

Capital Expenditures totaled \$6,616 in 2019. The Company continued to deploy resources to support new product launches in all regions.

At the end of 2019, Nematik's Net Debt was \$22,718 (US\$ 1.21 billion) reported at the end of 2018. Nematik's financial condition remained solid in 2019.

Key financial ratios were: Debt, net of cash, to EBITDA of 1.39x; Interest Coverage 8.6x, compared to 1.7 and 7.8, respectively, in 2018.

2019 HIGHLIGHTS

NEW CONTRACTS

During 2019, Nematik signed contracts worth a total of more than US\$1 billion in annual revenues across its product lines.

DEVELOPMENT OF STRUCTURAL AND ELECTRIC VEHICLE COMPONENTS (SC/EV) BUSINESS

In 2019, the Company continued strengthening its foundation for future growth in its SC/EV business. This included:

- New contracts for the production of these components, worth an estimated US\$280 million, more than half of which represented incremental business. This increases Nematik's total order book in this segment to US\$750 million in annual revenues.
- Production of battery housings for the new Ford Mustang Mach-E. The component consists of a 2.2 by 1.5-meter structure of aluminum parts, mainly stampings and extrusions, which will be joined together using state-of-the-art robotic welding, adhesive application, and a self-piercing riveting process. This constitutes a significant milestone towards delivering fully assembled solutions for battery electric vehicles.
- Completion of construction of the first phase of a new facility in North America, to be focused exclusively on producing e-mobility applications.

INDUSTRY RECOGNITION

Nematik received the "Supplier of the Year" award from General Motors. This marks the fifteenth time the Company has been recognized in the award's 27-year history.

During the third quarter of 2019, Nematik was selected to join the Dow Jones Sustainability MILA Pacific Alliance Index, which recognizes companies with leading economic, social, and environmental practices in Latin America. Nematik is the only company from the automotive sector to be included in the 2019 selection.

The Company was selected to join the London Stock Exchange's FTSE4Good Index Series, also taking into consideration expert reviews of social, environmental, and economic practices.

Thanks to its use of proprietary casting technology to produce highly integrated electric motor housings, Nematik was selected as a finalist for the 2019 Automotive New PACETM Awards. Winners will be announced in the first quarter of 2020.



Independent Auditors' Report to the Board of Directors and Stockholders of Nemark, S. A. B. de C. V.

Opinion

We have audited the consolidated financial statements of Nemark, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the consolidated statements of operations, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019 and their consolidated financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the Code of Ethics issued by the Mexican Institute of Public Accountants ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most importance in our audit of the 2020 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of tests of impairment of goodwill and long lived assets

As described in Notes 3 L, 10, 11 and 12 to the consolidated financial statements, the Company performs impairment tests to its goodwill and intangibles with indefinite useful lives; in addition, it performs impairment tests when there are indicators that the value of long lived assets, such as property, plant and equipment, intangible assets and right-of-use assets, will not be recovered.

We have identified the long lived assets and goodwill review as a key audit matter, mainly due to the fact that impairment tests involve the application of judgments and significant estimates by the Company's management in determining the assumptions of valuation and financial projections, cash flows, budgeted income, and the selection of discount rates used to estimate the recoverable value of the cash generating units ("CGUs") of the Company, as well as changes in the current economic environment caused by the global coronavirus pandemic (COVID-19) in business, in addition to the importance of the goodwill balance of \$6,194 million of pesos in the consolidated financial statements of the Company. Therefore, our review procedures require a high degree of professional judgment, a significant increase in the degree of audit effort, and the incorporation of our valuation specialists.

We performed the following audit procedures on the significant assumptions that the Company considered when estimating future projections to evaluate the recoverable value of goodwill as well as long-lived assets, among others; projections of income and expenses, expected gross and operating profit margins, discount rate, the industry growth rate, income projections, discount rate, comparison of the expected gross profit margin, projected flows considering the effects originated by the COVID-19. As follows:

- We tested the design, implementation and the operating effectiveness of internal controls in the determination of the recoverable value and the assumptions used in the valuation.
- With the assistance of our valuation specialists, we assessed the reasonableness of the i) methodology to determine the recoverable value of tangible, intangible assets with indefinite useful lives and goodwill and



ii) reviewed the financial projections including the impacts of COVID-19 on business operations, comparing them with performance and historical business trends, corroborating the explanations of the variations with management. Likewise, we assessed the internal processes used by management to calculate projections, including timely monitoring and analysis by the Board of Directors, and if the projections are consistent with the budgets approved by the Board.

- We reviewed the significant assumptions used in the impairment calculation model, specifically including income and cash flow projections, the projected industry growth rate and the projected long-term growth rate; gross and operating margins, as well as the multiple of Earnings before interest, taxes, depreciation and amortization ("EBITDA"). Additionally, we tested the mathematical accuracy and integrity of the impairment model, the sensitivity calculations of the significant assumptions in the calculation for all CGUs, calculating an independent estimate to conclude whether the assumptions used would need to be modified and the probability that such modifications happen.
- Independent evaluation of the discount rates and we compared such rates with the estimates used by management.
- We evaluated the factors and variables used to determine the CGUs, among which were considered: the analysis of operating cash flows and indebtedness policies, analysis of the legal structure, allocation of production and understanding of the operation of the commercial and sales areas.

The results of our procedures were satisfactory, and we agree that the determination of the recoverable value of the CGUs and the assumptions used are reasonable.

Assessment of the recoverability of deferred income tax assets

The Company records deferred income tax assets derived from tax losses. Management performed an assessment of the probability of recovering the tax losses carryforwards to generate an economic and fiscal benefit in the future, to support the deferred tax assets recognized on its consolidated financial statements.

Due to the significance of the deferred income tax asset balance derived from tax losses as of December 31, 2020 amounting to \$1,214 million of pesos, and the significant judgments and estimates to determine future projections of the

Company's taxable income, we focused on this line item, among others, and performed the following procedures:

- We verified the reasonableness of the projections used to determine future taxable income.
- We challenged the projections used in the assessment by comparing them to the business performance and historical trends, verifying the explanations of variations with management.
- With the support of internal experts, we reviewed the projected taxable income, and the assumptions used by management in preparing such tax projections.
- We discussed with management the sensitivity analysis and assessed the extent to which the key assumptions used would need to be modified in order for an adjustment to be considered for evaluation.

The results of our audit procedures were satisfactory. The Company's accounting policy to record deferred taxes, as well as the details of their disclosure are included in Notes 3 m. and 25, respectively, to the accompanying consolidated financial statements.

Emphasis Paragraph – Significant Event

As mentioned in Note 2 a. to the consolidated financial statements, on March 11, 2020, the World Health Organization declared the SARS-COV2 virus ("COVID-19") as a pandemic; after this event, the spread of COVID-19 caused a slowdown in the automotive industry in which the Company operates, having effects on the consolidated financial and operational information during 2020. The Company's management continues to implement measures to address the economic conditions of the market. Our opinion has not been modified by this matter.

Information other than the Consolidated Financial Statements and Auditors' Report thereon

The Company's management is responsible for the additional information. Additional information includes: i) the information that will be incorporated in the Annual Report that the Company is required to prepare in accordance with article 33, section I, subsection b) of Title four, Chapter One of the General Provisions Applicable to Issuers and other Participants of the Stock Market in Mexico and the Instructions that accompany these provisions (the "Provisions") and ii) the other additional information, which is a measure that is not required by IFRS and



has been incorporated with the purpose of providing an additional explanation to its investors and main readers of its consolidated financial statements to evaluate the performance of each of the operating segments and other indicators on the capacity to meet obligations regarding the Earnings before interest, taxes, depreciation, amortization and impairment of assets (adjusted "EBITDA") of the Company; this information is presented in Note 27. Our opinion of the consolidated financial statements will not cover the additional information and we will not express any form of security about it.

In relation to our audit of the consolidated financial statements, our responsibility will be to read the additional information when it is available, and when we do, consider whether the additional information contained is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or that seems to contain a material error. When we read the Annual Report we will issue the declaration on its reading, required in Article 33 Section I, subsection b) number 1.2. of the Provisions. Additionally, and in relation to our audit of the consolidated financial statements, our responsibility is to read and recalculate the additional information, which, in this case, is a measure not required by IFRS and in doing so consider whether the other information contained therein is inconsistent in material form with the consolidated financial statements or with our knowledge obtained during the audit, or that seems to contain a material error. If based on the work we have done, we conclude that there is a material error in the additional information, we would have to report this fact. We do not have anything to inform in this regard.

Responsibilities of management and those charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's consolidated financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Galaz, Yamazaki, Ruiz Urquiza, S.C.

Member of Deloitte Touche Tohmatsu Limited



C. P. C. Carlos A. López Vázquez

Monterrey, Nuevo Leon, Mexico

January 31, 2021



Consolidated Statements of Financial Position

As of December 31, 2020 and 2019. In millions of Mexican pesos

As of December 31

	Note	2020	2019
ASSETS			
Current assets:			
Cash and cash equivalents	6	\$ 8,720	\$ 5,883
Restricted cash	7	121	120
Trade and other accounts receivable, net	8	9,229	7,860
Inventories	9	12,685	11,146
Prepaid expenses	3v	436	394
Total current assets		31,191	25,403
Non-current assets:			
Property, plant and equipment, net	10	51,491	48,140
Right-of-use asset	11	1,797	1,763
Goodwill and intangible assets, net	12	12,221	11,182
Deferred income tax	25	1,030	1,057
Other non-current accounts receivable	8, 26	-	2
Other non-current assets	13	1,002	1,197
Total non-current assets		67,541	63,341
Total assets		\$98,732	\$88,744



Armando Tamez Martínez
Chief Executive Officer



Alberto Sada Medina
Chief Financial Officer

	Note	2020	2019
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Current liabilities:			
Debt	15	\$ 4,490	\$ 2,297
Lease liability	16	422	372
Trade and other accounts payable	14	24,985	21,166
Income taxes payable		682	883
Other current liabilities	17	416	614
Total current liabilities		30,995	25,332
Non-current liabilities:			
Debt	15	26,723	24,440
Lease liability	16	1,554	1,481
Employee benefits	18	1,568	1,408
Deferred income taxes	25	1,951	1,955
Other non-current liabilities	17	273	184
Total non-current liabilities		32,069	29,468
Total liabilities		63,064	54,800
Stockholders' equity	19		
Capital stock		6,599	6,599
Share premium		10,434	10,434
Retained earnings		10,201	11,373
Other reserves		8,434	5,538
Total stockholders' equity		35,668	33,944
Total liabilities and stockholders' equity		\$98,732	\$88,744

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

For the years ended December 31, 2020 and 2019. In millions of Mexican pesos

	Note	2020	2019
Revenues	27	\$ 66,325	\$ 77,363
Cost of sales	21	(58,343)	(66,276)
Gross profit		7,982	11,087
Administrative and sales expenses	21	(4,980)	(5,328)
Other expenses, net	22	(1,035)	(795)
Operating income		1,967	4,964
Financial income	23	76	242
Financial expenses	23	(1,746)	(1,576)
Exchange fluctuation loss, net	23	(1,020)	(34)
Financial results, net	23	(2,690)	(1,368)
Equity in income of associates recognized using the equity method	13	(29)	41
(Loss) income before income taxes		(752)	3,637
Income taxes	25	(181)	(1,144)
		\$ (933)	\$ 2,493
Basic and diluted (loss) earnings per share, in Mexican pesos		(0.30)	0.81
Weighted average outstanding shares (millions)	19	3,077	3,077

See accompanying notes to consolidated financial statements.



Armando Tamez Martínez
Chief Executive Officer



Alberto Sada Medina
Chief Financial Officer



Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019. In millions of Mexican pesos

	Note	2020	2019
Net consolidated (loss) income		\$ (933)	\$ 2,493
Other comprehensive income for the year:			
Items that will not be reclassified to the consolidated statement of operations:			
Remeasurement of employee benefit obligation net of taxes	25	(13)	(115)
Items that could be reclassified to the consolidated statement of operations:			
Cumulative translation effect of foreign entities	25	2,909	(1,846)
Total comprehensive income (loss) of the year		2,896	(1,961)
Consolidated comprehensive income		\$ 1,963	\$ 532

See accompanying notes to consolidated financial statements.


Armando Tamez Martínez
 Chief Executive Officer


Alberto Sada Medina
 Chief Financial Officer



Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2020 and 2019. In millions of Mexican pesos

	Capital stock	Share premium	Retained earnings	Other reserves	Total stockholders' equity
Balances as of December 31, 2018	\$ 6,604	\$ 10,434	\$ 11,567	\$ 7,499	\$ 36,104
Transactions with stockholders:					
Others	(5)	-	14	-	9
Dividends declared (Notes 19 and 26)	-	-	(2,439)	-	(2,439)
	6,599	10,434	9,142	7,499	33,674
Net income	-	-	2,493	-	2,493
Total other comprehensive loss of the year	-	-	-	(1,961)	(1,961)
Comprehensive income	-	-	2,493	(1,961)	532
Effect of Adoption of IFRIC 23	-	-	(262)	-	(262)
Balances as of December 31, 2019	6,599	10,434	11,373	5,538	33,944
Transactions with stockholders:					
Dividends declared (Notes 19 and 26)	-	-	(239)	-	(239)
	6,599	10,434	11,134	5,538	33,705
Net loss	-	-	(933)	-	(933)
Total other comprehensive income of the year	-	-	-	2,896	2,896
Comprehensive income	-	-	(933)	2,896	1,963
Balances as of December 31, 2020	\$ 6,599	\$ 10,434	\$ 10,201	\$ 8,434	\$ 35,668

See accompanying notes to consolidated financial statements.



Armando Tamez Martínez
Chief Executive Officer



Alberto Sada Medina
Chief Financial Officer

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019. In millions of Mexican pesos

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) income before income taxes	\$ (752)	\$ 3,637
Depreciation and amortization	6,826	6,079
Gain on sale of property, plant and equipment	(6)	(4)
Impairment of property, plant and equipment	133	915
Exchange fluctuation, net	1,020	34
Interest expense, net	1,535	1,166
Other	276	152
Movements in working capital:		
Trade receivables and other accounts receivable, net	(1,232)	1,309
Inventories	(631)	1,048
Suppliers and related parties	1,800	(558)
Income taxes paid	(366)	(1,945)
Net cash flows provided by operating activities	8,603	11,833



Armando Tamez Martínez
Chief Executive Officer



Alberto Sada Medina
Chief Financial Officer

	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest collected	66	189
Cash flow in acquisitions of property, plant and equipment	(4,439)	(5,102)
Cash flow in acquisition of intangible assets	(1,216)	(1,513)
Dividends received	24	-
Restricted cash	-	986
Other	(87)	766
Net cash flows used in investing activities	(5,652)	(4,674)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt	15,851	7,164
Payments of debt	(13,410)	(7,584)
Lease payments	(298)	(380)
Interest paid	(1,498)	(1,368)
Other	5	(22)
Dividends paid	(306)	(2,439)
Net cash flows generated by (used in) financing activities	344	(4,629)
Net increase in cash and cash equivalents	3,295	2,530
Exchange fluctuation of cash and cash equivalents	(458)	(202)
Cash and cash equivalents at the beginning of the year	5,883	3,555
Cash and cash equivalents at the end of the year	\$ 8,720	\$ 5,883

See accompanying notes to consolidated financial statements.



Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2020 and 2019
Millions of Mexican pesos, except where otherwise indicated

1. General information

Nemak, S. A. B. de C. V. and subsidiaries ("Nemak" or the "Company"), subsidiary of Controladora Nemak, S. A. B. de C. V. ("Controladora Nemak") as of October 5, 2020, due to the fact that on that date the legal conditions that were defined in the Alfa S.A.B. de C.V. ("ALFA") Shareholders Meeting on August 17, 2020 were met with retroactive effect to that date (Note 2.b and 2.c), is a leading provider of innovative lightweighting solutions for the global automotive industry, specializing in the development and manufacturing of aluminum components for powertrain, e-mobility, and structural applications. The main offices of Nemak are located in Libramiento Arco Vial Km. 3.8, Col. Centro in García, Nuevo León, Mexico.

When reference is made to the controlling entity Nemak, S. A. B. de C. V. as an individual legal entity, it will be referred to as "Nemak SAB".

Nemak SAB is a public corporation whose shares are listed on the Mexican Stock Exchange. The Company is owned 75.2% by Controladora Nemak and the remaining 24.8% is owned, through the Mexican Stock Exchange by a group of Mexican and foreign investors (including Ford). Controladora Nemak has control over the relevant activities of the Company.

In the notes to the consolidated financial statements, reference to pesos, Mexican pesos or "\$" stands for millions of Mexican pesos. The captions dollars or "US\$" refer to millions of U.S. dollars. In the case of information in millions of Euros, reference will be made to "EUR" or Euros.

2. Significant events

2020

- a. The infectious disease virus SARS-COV2 (herein, "COVID-19") was declared a pandemic on March 11, 2020 by the World Health Organization. COVID-19 continues to have a strong impact on health, economic and social systems worldwide.

As a result of the pandemic, along with emergency declarations issued in certain jurisdictions where the Company operates, it suspended production for several months of 2020 at all its plants worldwide; at the same time,

it implemented measures aimed at optimizing costs, expenses and cash flows, through the use of committed and uncommitted credit lines (Note 4), the reduction of work hours and advanced vacations and favoring salary commitments through Western European government support, among other measures (Note 18). The main impact occurred in the months of April and May, which was reflected in sales, decreased by 60% in the second quarter of 2020 and in respect with the second quarter of the previous year.

In response to this conditions, the Company reduced the size of its total workforce by 9% in 2020, incurring a termination benefits expense and other COVID-19 related expenses of US\$36. It also announced the cancellation of the payment of the remaining balance of the dividends declared at its General Shareholders' Meeting held on February 25, 2020 (Note 19).

In addition, the Company made amendments to some of its credit contracts in order to comply with the agreed covenants, without these amendments representing refinancing that must be evaluated under IFRS 9, modifying the maximum leverage ratio of net debt/EBITDA from 3.5 to 4.75 times and with a term extending from May 1, 2020 to June 30, 2021 (Note 15). As of the date of approval of the consolidated financial statements, the Company's management continues to implement measures to face the economic conditions of the market, as part of its risk management strategy.

- b. On August 17, 2020, Nemak announced that the shareholders of its holding company (ALFA) approved a spin-off proposal to transfer all of ALFA's shareholding in Nemak, to a newly created company to be listed on the Mexican Stock Exchange: Controladora Nemak, S.A.B. de C.V.
- c. On December 4, 2020, Nemak announced that the National Banking and Securities Commission ("CNBV" for its acronym in Spanish) had granted authorization to register the shares of Controladora Nemak, S.A.B. de C.V. in the National Registry of Securities. As a result of the transaction, shareholders of its holding company, ALFA, received one share of Controladora Nemak for each of their ALFA shares as of market closing on December 11, 2020. The number of Nemak shares remained unchanged. Controladora Nemak began trading on the Mexican Stock Exchange on December 14, 2020, date from which ALFA no longer consolidates Nemak's operations in its consolidated financial statements.



2019

d. On July 16, 2019, Nemak announced the decision to close its manufacturing operations in Windsor, Canada, which had its final day of operations on October 16, 2020. The operation represented approximately 1% of the consolidated sales of the Company. The decision was due to the early phase-out of an export program for a customer in China. Therefore, for the year ended December 31, 2020 and 2019, Nemak acknowledged an impairment of \$110 and \$714 and reorganizational expenses of \$21 and \$80 recognized in other expenses, net.

3. Summary of significant accounting policies

The following are the most significant accounting policies followed by Nemak and its subsidiaries, which have been consistently applied in the preparation of the financial information in the years presented, unless otherwise specified:

a. Basis for preparation

The consolidated financial statements of Nemak have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). IFRS include all International Accounting Standards ("IAS") in effect and all related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standing Interpretations Committee ("SIC").

The consolidated financial statements have been prepared on a historical cost basis, except for the cash flow hedges, which are measured at fair value and the net assets and the results of the operations of the Company in Argentina, an economy that is considered hyperinflationary, which are expressed in terms of the unit of current measurement as of the closing date of the reporting period.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Additionally, it requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments and estimates are significant to the consolidated financial statements are disclosed in Note 5.

b. Consolidation**i. Subsidiaries**

The subsidiaries are all the entities over which the Company has control. The Company controls an entity when it is exposed, or has the right to variable returns from its interest in the entity and it is capable of affecting the returns through its power over the entity. When the Company's participation in subsidiaries is less than 100%, the share attributed to outside shareholders is reflected recorded as non-controlling interest. The gain or loss of the subsidiaries, as well as their assets and liabilities, are consolidated in full from the date on which control is transferred to the Company and up to the date it loses such control.

The accounting method used by the Company for business combinations is the acquisition method. The Company defines a business combination as a transaction in which it gains control of a business, and through which it is able to direct and manage the relevant activities of the set of assets and liabilities of such business with the purpose of providing a return in the form of dividends, smaller costs or other economic benefits directly to stockholders.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable acquired assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree based on the share of the non-controlling interest in the net identifiable assets of the acquired entity.

The Company accounts for business combinations using the predecessor method in a jointly controlled entity. The predecessor method involves the incorporation of the carrying amounts of the acquired entity, which includes the goodwill recognized at the consolidated level with respect to the acquiree. Any difference between the carrying value of the net assets acquired at the level of the subsidiary and its carrying amount at the level of the Company are recognized in stockholders' equity.

The acquisition-related costs are recognized as expenses when incurred.

Goodwill is initially measured as excess of the sum of the consideration transferred and the fair value of the non-controlling interest over the net identifiable assets and liabilities assumed. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of operations.



If the business combination is achieved in stages, the value in books at the acquisition date of the equity previously held by the Company in the acquired entity is remeasured at its fair value at the acquisition date. Any loss or gain resulting from such remeasurement is recorded in income of the year.

Transactions and intercompany balances and unrealized gains on transactions between Nematik companies are eliminated in preparing the consolidated financial statements. In order to ensure consistency with the policies adopted by the Company, the accounting policies of subsidiaries have been changed where it was deemed necessary.

As of December 31, 2020, the subsidiaries included in the consolidated financial statements of Nematik were as follows:

	Country ⁽¹⁾	Percentage of ownership (%) ⁽²⁾	Functional currency
Nematik, S. A. B. de C. V. (Holding)	Mexico		U.S. dollar
Nematik Mexico, S. A.	Mexico	100	U.S. dollar
Modellbau Schönheide GmbH	Germany	100	Euro
Corporativo Nematik, S. A. de C. V. (Administrative services)	Mexico	100	Mexican peso
Nematik Canada, S. A. de C. V. (Holding)	Mexico	100	Mexican peso
Nematik of Canada Corporation	Canada	100	Canadian dollar
Nematik Gas, S. A. de C. V.	Mexico	100	Mexican peso
Nematik Automotive, S. A. de C. V.	Mexico	100	U.S. dollar
Camen International Trading, Inc.	USA	100	U.S. dollar
Nematik Europe GmbH	Germany	100	Euro
Nematik Exterior, S. L. (Holding)	Spain	100	Euro
Nematik Dillingen GmbH	Germany	100	Euro
Nematik Dillingen Casting GmbH & Co. KG	Germany	100	Euro
Nematik Wernigerode GmbH	Germany	100	Euro
Nematik Wernigerode GmbH & Co. KG	Germany	100	Euro
Nematik Linz GmbH	Austria	100	Euro
Nematik Györ Kft	Hungary	100	Euro

	Country ⁽¹⁾	Percentage of ownership (%) ⁽²⁾	Functional currency
Nematik Poland Sp. Z.o.o.	Poland	100	Euro
Nematik BSEU Sp. Z.o.o.	Poland	100	Euro
Nematik Slovakia, S. r. o.	Slovakia	100	Euro
Nematik Czech Republic, S.r.o.	Czech Republic	100	Euro
Nematik Spain, S. L.	Spain	100	Euro
Nematik Rus, LLC.	Russia	100	Russian ruble
Nematik Pilsting GmbH	Germany	100	Euro
Nematik Alumínio do Brazil Ltda.	Brazil	100	Brazilian real
Nematik Argentina, S. R. L.	Argentina	100	Argentinean peso
Nematik Nanjing Automotive Components Co., Ltd.	China	100	Chinese renminbi yuan
Nematik Chongqing Automotive Components, Co, Ltd.	China	100	Chinese renminbi yuan
Nematik Shanghai Management Co., Ltd.	China	100	Chinese renminbi yuan
Nematik Aluminum Casting India Private, Ltd.	India	100	Indian rupee
Nemre Insurance Pte Ltd.	Singapore	100	U.S. dollar
Nematik Commercial Services, Inc.	USA	100	U.S. dollar
Nematik USA, Inc.	USA	100	U.S. dollar
Nematik USA Services Inc.	USA	100	U.S. dollar
Nematik Automotive Castings, Inc.	USA	100	U.S. dollar
Nematik Izmir Döküm Sanayi A. Ş.	Turkey	100	Euro
Nematik Izmir Dis Ticaret A. Ş.	Turkey	100	Euro

⁽¹⁾ Country of company's incorporation.

⁽²⁾ Direct and indirect ownership percentage of Nematik SAB. Share ownership percentages as of December 31, 2020 and 2019.

As of December 31, 2020 and 2019, there are no significant restrictions on investment in shares of the subsidiary companies mentioned above.



ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, in example, an increase or decrease in the percentage of control, is recorded in stockholders' equity, directly in retained earnings, in the period in which the transactions that cause such effects occur. The effect of absorption (dilution) of control is determined by comparing the book value of the investment before the event of dilution or absorption against the book value after the relevant event. In the case of loss of control, the dilution effect is recognized in income.

iii. Sale or disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is re-measured at fair value, and the change in the carrying amount is recognized in the consolidated statement of operations. The fair value is the initial carrying value for the purposes of accounting for any subsequent retained interest in the associate, joint venture or financial asset. Any amount previously recognized in comprehensive income in respect of that entity is accounted for as if the Company had directly disposed of the related assets and liabilities. This implies that the amounts recognized in the comprehensive income are reclassified to income for the year.

iv. Associates

Associates are all entities over which the Company has significant influence but not control. Generally, an investor must hold between 20% and 50% of the voting rights in an investee for it to be an associate. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss.

If the equity in an associate is reduced but significant influence is maintained, only a portion of the amounts recognized in the comprehensive income are reclassified to income for the year, where appropriate.

The Company's share of profits or losses of associates, post-acquisition, is recognized in the consolidated statement of operations and its share in the other comprehensive income of associates is recognized as other comprehensive income. When the Company's share of losses in an associate equals or exceeds its equity in the associate, including unsecured receivables, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

The Company assesses at each reporting date whether there is objective evidence that the investment in the associate is impaired. If so, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes it in "share of

profit/loss of associates recognized by the equity method" in the consolidated statements of operations.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's equity in such gains. Unrealized losses are also eliminated unless the transaction provides evidence that the asset transferred is impaired. In order to ensure consistency with the policies adopted by the Company, the accounting policies of associates have been modified. When the Company ceases to have significant influence over an associate, any difference between the fair value of the remaining investment, including any consideration received from the partial disposal of the investment and the book value of the investment is recognized in the consolidated statements of operations.

c. Foreign currency translation**i. Functional and presentation currency**

The amounts included in the financial statements of each of the Company's subsidiaries and associates should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in millions of Mexican pesos.

When there is a change in the functional currency of one of the subsidiaries, according to International Accounting Standard 21, Effects of changes in foreign exchange rates ("IAS 21"), this change is accounted for prospectively, translating at the date of the change of functional currency, all assets, liabilities, equity and income items to the exchange rate of that date.

ii. Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rates prevailing at the transaction date or valuation date when the amounts are re-measured. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are recognized as foreign exchange gain or loss in the income statement, except for those which are deferred in comprehensive income and qualify as cash flow hedges.

Changes in the fair value of securities or monetary financial assets denominated in foreign currency classified as available for sale are divided between fluctuations resulting from changes in the amortized cost of such securities and other changes in value. Subsequently, currency fluctuations are recognized in income and changes in the carrying amount arising from any other circumstances are recognized as part of comprehensive income.



Conversion differences of non-monetary assets, for example, investments classified as available for sale, are included in other comprehensive income.

Exchange differences of monetary assets classified as financial instruments at fair value through profit or loss are recognized in the consolidated statement of operations as part of the gain or loss of fair value.

Translation of subsidiaries with recording currency other than the functional currency.

The financial statements of foreign subsidiaries, having a recording currency different from their functional currency were translated into the functional currency in accordance with the following procedure:

- a. The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rates.
- b. To the historical balances of monetary assets and liabilities and shareholders' equity translated into the functional currency there were added the movements occurred during the period, which were translated at historical exchange rates. In the case of the movements of non-monetary items recognized at fair value, which occurred during the period, stated in the recording currency, these were translated using the historical exchange rates in effect on the date when the fair value was determined.
- c. The income, costs and expenses of the periods, expressed in the recording currency, were translated at the historical exchange rate of the date they were accrued and recognized in the income statement, except when they arose from non-monetary items, in which case the historical exchange rate of the non-monetary items were used.
- d. The exchange differences arising in the translation from the recording currency to the functional currency were recognized as income or expense in the consolidated statement of operations in the period they arose.

Translation of subsidiaries with functional currency other than the presentation currency.

The results and financial position of all Nemark entities have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- a. Assets and liabilities for each statement of financial position balance sheet presented are translated at the closing exchange rate at the closing date;

- b. Stockholders' equity of each consolidated statement of financial position are translated at historical rates.

- c. Income and expenses for each income statement of operations are translated at average exchange rate (when the average exchange rate is not a reasonable approximation of the cumulative effect of the rates of the transaction, to the exchange rate at the date of the transaction is used); and

- d. The resulting exchange differences are recognized in the consolidated statement of comprehensive income.

Goodwill and fair value adjustments arising on the acquisition date of a foreign transaction to measure them at their fair value are recognized as assets and liabilities of the foreign entity and are converted to the closing exchange rate. The exchange differences that arise are recognized in the consolidated statement of comprehensive income.

The primary exchange rates in the various translation processes are listed below:

		Local currency to Mexican pesos			
		Closing Exchange rate at December 31,		Average Exchange rate at December 31,	
Country	Local currency	2020	2019	2020	2019
Canada	Canadian dollar	15.66	14.53	15.57	14.65
United States	U.S. dollar	19.95	18.85	19.98	19.17
Brazil	Brazilian real	3.84	4.69	3.78	4.66
Argentina	Argentinean peso	0.24	0.31	0.24	0.32
Czech Republic	Euro	24.41	21.15	24.29	21.23
Germany	Euro	24.41	21.15	24.29	21.23
Austria	Euro	24.41	21.15	24.29	21.23
Hungary	Euro	24.41	21.15	24.29	21.23
Poland	Euro	24.41	21.15	24.29	21.23
Slovakia	Euro	24.41	21.15	24.29	21.23



		Local currency to Mexican pesos			
		Closing Exchange rate at December 31,		Average Exchange rate at December 31,	
Country	Local currency	2020	2019	2020	2019
Spain	Euro	24.41	21.15	24.29	21.23
China	Chinese renminbi yuan	3.06	2.71	3.05	2.75
India	Indian rupee	0.27	0.26	0.27	0.27
Russia	Russian ruble	0.27	0.30	0.27	0.30
Singapore	U.S. dollar	19.95	18.85	19.98	19.17
Turkey	Euro	24.41	21.15	24.29	21.23

d. Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits available for operations and other short-term investments of high liquidity with original maturities of three months or less, all of which are subject to insignificant risk of changes in value and maintain a high credit quality. Bank overdrafts are presented as loans as a part of the current liabilities.

e. Restricted cash

Cash and cash equivalents whose restrictions cause them not to comply with the definition of cash and cash equivalents given above, are presented in a separate line in the consolidated statement of financial position and are excluded from cash and cash equivalents in the consolidated statement cash flows.

f. Financial instruments

Financial assets

The Company classifies and measures its financial assets based on the Company's business model to manage financial assets, and on the characteristics of the contractual cash flows of such assets. This way financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized at settlement date.

Financial assets are entirely written off when the right to receive the related cash flows expires or is transferred, and the Company has also substantially transferred all the risks and rewards of its ownership, as well as the control of the financial asset.

Classes of financial assets

i. Financial assets at amortized cost

Financial assets at amortized cost are financial assets that i) are held within a business model whose objective is to hold said assets in order to collect contractual cash flows; and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal.

ii. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are financial assets: i) held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2020 and 2019, the Company does not have financial assets to be measured at fair value through other comprehensive income.

iii. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss, in addition to those described in point i in this section, are financial assets that do not meet the characteristics to be measured at amortized cost or fair value through other comprehensive income, since i) they have a business model different to those that seek to collect contractual cash flows, or collect contractual cash flows and sell the financial assets, or otherwise ii) the generated cash flows are not solely payments of principal and interest on the amount of outstanding principal.

Despite the mentioned classifications, the Company can make the following irrevocable elections in the initial recognition of a financial asset:

- Present the subsequent changes in the fair value of a capital investment in other comprehensive income, as long as the investment is not held for trading purposes, that is a contingent consideration recognized as a result of a business combination.
- Designate a debt instrument that meets the criteria to be subsequently measured at amortized cost or at fair value through other comprehensive results, to be measured at fair value through results, if doing so eliminates or significantly reduces an accounting asymmetry that would arise of the measurement of assets or liabilities or the recognition of gains and losses on them in different bases.



As of December 31, 2020 and 2019, the Company has not made any of the irrevocable designations described above.

Impairment of financial assets

The Company use a new impairment model based on expected credit losses rather than losses incurred, applicable to financial assets subject to such assessment (i.e. financial assets measured at amortized cost and at fair value through other comprehensive income), as well as lease receivables, contract assets, certain written loan commitments, and financial guarantee contracts. The expected credit losses on these financial assets are estimated from the origin of the asset at each reporting date, taking as a reference the historical experience of the Company's credit losses, adjusted for factors that are specific to the debtors or groups of debtors, the general economic conditions and an evaluation of both the current direction and the forecast of future conditions.

a. Trade receivables

The Company adopted the simplified expected loss calculation model, through which expected credit losses during the asset's lifetime are recognized.

The Company does an analysis of its portfolio of accounts receivable from clients, in order to determine if there are significant clients for whom it requires an individual evaluation; On the other hand, customers with similar characteristics that share credit risks (participation in the portfolio of accounts receivable, market type, sector, geographic area, etc.), are grouped to be evaluated collectively.

For the impairment assessment, the Company may include indications that the debtors or a group of debtors are experiencing significant financial difficulties; increase in the probability of debtors entering into bankruptcy or a financial restructuring, as well as observable data indicating that there is a considerable decrease in the estimate of the cash flows to be received, including arrears.

For purposes of the previous estimate, the Company considers that the following constitutes an event of default, since historical experience indicates that financial assets are not recoverable when they meet any of the following criteria:

- The debtor fails to meet the financial covenants; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in its entirety (without considering any guarantee held by the Company).

The Company defined as the default threshold, the period from which the recovery of the account receivable subject to analysis is marginal; in this case, 271 days of delay, which is in line with internal risk management.

b. Other financial instruments

The Company recognizes credit losses expected during the asset's lifetime of all financial instruments for which credit risk has significantly increased since its initial recognition (assessed on a collective or individual basis), considering all the reasonable and sustainable information, including the one referring to the future. If as of the date of presentation of the credit risk a financial instrument has not significantly increased since its initial recognition, the Company calculates the loss allowance for that financial instrument as the amount of expected credit losses in the following 12 months.

In both cases, the Company recognizes in profit or loss of the period the decrease or increase in the expected credit loss allowance at the end of the period, as an impairment gain or loss.

The Company calculates expected credit losses of a financial instrument in such a way that reflects:

- a. an amount of weighted probability, not biased, which is determined by the assessment of a range of possible results;
- b. the time value of money; and
- c. the reasonable and sustainable information that is available without cost or disproportionate effort at the date of presentation on past events, current conditions and forecasts of future economic conditions.

In measuring the expected credit losses, the Company does not necessarily identify all the possible scenarios. However, it considers the risk or probability that a credit loss occurs, reflecting the possibility that the payment default occurs and does not occur, even if that possibility is very low. In addition, the Company determines the period for the default to occur, and the recoverability rate after default.

Management assesses the impairment model and the inputs used therein at least once every 3 months, in order to ensure that they remain in effect based on the current situation of the portfolio.

Financial liabilities

Financial liabilities that are not derivatives are initially recognized at fair value and subsequently are valued at the amortized cost using the effective interest method. Liabilities in this category are classified as current liabilities when they must be settled within the next 12 months; otherwise, they are classified as non-current liabilities.



Accounts payable are obligations to pay for goods or services that have been acquired or received by suppliers in the ordinary course of business. Loans are initially recognized at their fair value, net of transaction costs incurred. The loans are subsequently recognized at amortized cost; any difference between the resources received (net of transaction costs) and the settlement value is recognized in the consolidated statement of operations over the term of loan using the effective interest method.

Derecognition of financial liabilities

The Company derecognizes financial liabilities if, and only, the Company's liabilities are met, cancelled or expired. The difference between the book value of the financial liabilities derecognized and the consideration, is recognized in the consolidated statement of operations.

Additionally, when the Company incurs a refinancing transaction and the previous liability qualifies to be derecognized, the incurred costs of refinancing are recognized immediately in the consolidated statements of operations at the extinction date of the past financial liability.

Compensation of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when the right to offset the amounts recognized is legally enforceable and there is an intention to settle them on a net basis or to realize the asset and pay the liability simultaneously.

g. Derivative financial instruments and hedging activities

All derivative financial instruments are identified and classified as fair value hedging hedges or cash flow hedges, for trading or the hedging of market risks and are recognized in the consolidated statement of financial position as assets and/or liabilities at fair value and similarly measured subsequently at fair value. The fair value is determined based on recognized market prices and its fair value is determined using valuation techniques accepted in the financial sector.

The fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

Derivative financial instruments classified as hedges are contracted for risk hedging purposes and meet all hedging requirements; their designation at the beginning of the hedging operation is documented, describing the objective, primary position, risks to be hedged and the effectiveness of the hedging relationship, characteristics, accounting recognition and how the effectiveness is to be measured, applicable to this transaction.

Fair value hedges

Changes in the fair value of derivative financial instruments are recorded in the consolidated statement of operations. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of operations in the same line item as the hedged position. As of December 31, 2020 and 2019, the Company has no derivative financial instruments classified as fair value hedges.

Cash flow hedges

The changes in the fair value of derivative instruments associated to cash flow hedges are recorded in stockholders' equity. The effective portion is temporarily recorded in comprehensive income, within stockholders' equity and is reclassified to profit or loss when the hedged position affects these. The ineffective portion is immediately recorded in income.

Net investment hedge in a foreign transaction

The Company applies hedge accounting to currency risk arising from its investments in foreign transactions for variations in exchange rates arising between the functional currency of such transaction and the functional currency of the holding entity, regardless of whether the investment is maintained directly or through a sub-holding entity. Variation in exchange rates is recognized in the other items of comprehensive income as part of the translation effect, when the foreign transaction is consolidated.

To this end, the Company designates the debt denominated in a foreign currency as a hedging instrument; therefore, the exchange rate effects caused by the debt are recognized in other components of comprehensive income, on the translation effects line item, to the extent that the hedge is effective. When the hedge is not effective, exchange differences are recognized in profit or loss.

Suspension of hedge accounting

The Company suspends hedge accounting when the derivative financial instrument or the non-derivative financial instrument has expired, is cancelled or exercised, when the derivative or non-derivative financial instrument is not highly effective to offset the changes in the fair value or cash flows of the hedged item, or when the Company decides to cancel the hedge designation.

On suspending hedge accounting, in the case of fair value hedges, the adjustment to the carrying amount of a hedged amount for which the effective interest rate method is used, is amortized to income over the period to maturity. In the case of cash flow hedges, the amounts accumulated in equity as a part of comprehensive income remain in equity until the time when the effects of the forecasted transaction affect income. In the event the forecasted transaction is not likely to occur, the income or loss accumulated in comprehensive income



are immediately recognized in the consolidated statement of operations. When the hedge of a forecasted transaction appears satisfactory and subsequently does not meet the effectiveness test, the cumulative effects in comprehensive income in stockholders' equity are transferred proportionally to the consolidated statement of operations, to the extent the forecasted transaction impacts it.

The fair value of derivative financial instruments reflected in the consolidated financial statements of the Company, is a mathematical approximation of their fair value. It is computed using proprietary models of independent third parties using assumptions based on past and present market conditions and future expectations at the closing date.

h. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. The cost of finished goods and work-in-progress includes cost of product design, raw materials, direct labor, other direct costs and production overheads (based on normal operating capacity). It excludes borrowing costs. The net realizable value is the estimated selling price in the normal course of business, less the applicable variable selling expenses. Costs of inventories include any gain or loss transferred from other comprehensive income corresponding to raw material purchases that qualify as cash flow hedges.

i. Property, plant and equipment

Items of property, plant and equipment are recorded at cost less the accumulated depreciation and any accrued impairment losses. The costs include expenses directly attributable to the asset acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the consolidated statement of operations during the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

When the Company carries out major repairs or maintenance of its property, plant and equipment assets, and the cost is recognized in the book value of the corresponding asset as a replacement, provided that the recognition criteria are met. The remaining portion of any major repair or maintenance is derecognized. The Company subsequently depreciates the recognized cost in the useful life assigned to it, based on its best estimate of useful life.

Depreciation is calculated using the straight-line method, considering separately each of the asset's components, except for land, which is not subject to depreciation. The estimated useful lives of assets classes are as follows:

Buildings and constructions	20 to 50 years
Machinery and equipment	10 to 30 years
Vehicles	4 to 20 years
Furniture and office equipment	6 to 15 years
Other assets	10 to 20 years

The spare parts to be used after one year and attributable to specific machinery are classified as property, plant and equipment in other fixed assets.

Borrowing costs related to financing of property, plant and equipment whose acquisition or construction takes a substantial period to be ready for its use (nine months or more), are capitalized as part of the cost of acquiring such qualifying assets, up to the moment when they are suitable for their intended use or sale.

Assets classified as property, plant and equipment are subject to impairment tests when events or circumstances occur indicating that the carrying amount of the assets may not be recoverable. An impairment loss is recognized in the consolidated statement of operations in other expenses, net, for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The residual value and useful lives of assets are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

The Company made changes in the estimated useful life of its fixed assets as will generate future economic benefits for a period longer than previously estimated which were recognized prospectively from the beginning of the years ended December 31, 2020 and 2019, representing a non-significant impact in 2020 and a profit of \$327 in 2019 in the consolidated statement of operations, with respect to the depreciation that would have been recognized without such revisions in the estimate.

Gains and losses on disposal of assets are determined by comparing the sale value with the carrying amount and are recognized in other expenses, net, in the consolidated statements of operations.



j. Leases

The Company as lessee

The Company evaluates whether a contract is or contains a lease agreement at inception of a contract. A lease is defined as an agreement or part of an agreement that conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The Company recognizes a right-of-use asset and the corresponding lease liability, for all lease agreements in which it acts as lessee, except in the following cases: short-term leases (defined as leases with a lease term of less than 12 months); leases of low-value assets (defined as leases of assets with an individual market value of less than US\$5,000 (five thousand dollars)); and, lease agreements whose payments are variable (without any contractually defined fixed payment). For these agreements, which exempt the recognition of an asset for right-of-use and a lease liability, the Company recognizes the rent payments as an operating expense in a straight-line method over the lease period.

The right-of-use asset comprises all lease payments discounted at present value; the direct costs to obtain a lease; the advance lease payments; and the obligations of dismantling or removal of assets. The Company depreciates the right-of-use asset over the shorter of the lease term or the useful life of the underlying asset; therefore, when the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Depreciation begins on the lease commencement date.

The lease liability is initially measured at the present value of the future minimum lease payments that have not been paid at that date, using a discount rate that reflects the cost of obtaining funds for an amount similar to the value of the lease payments, for the acquisition of the underlying asset, in the same currency and for a similar period to the corresponding contract (incremental borrowing rate). When lease payments contain non-lease components (services), the Company has chosen, for some class of assets, not to separate them and measure all payments as a single lease component; however, for the rest of the class of assets, the Company measures the lease liability only considering lease payments, while all of the services implicit in the payments, are recognized directly in the consolidated statement of operations as operating expenses.

To determine the lease term, the Company considers the non-cancellable period, including the probability to exercise any right to extend and/or terminate the lease term.

Subsequently, the lease liability is measured increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

When there is a modification in future lease payments resulting from changes in an index or a rate used to determine those payments, the Company remeasures the lease liability when the adjustment to the lease payments takes effect, without reassessing the discount rate. However, if the modifications are related to the lease term or exercising a purchase option, the Company reassesses the discount rate during the liability's remeasurement. Any increase or decrease in the value of the lease liability subsequent to this remeasurement is recognized as an adjustment to the right-of-use asset to the same extent.

Finally, the lease liability is derecognized when the Company fulfills all lease payments. When the Company determines that it is probable that it will exercise an early termination of the contract that leads to a cash disbursement, such disbursement is accounted as part of the liability's remeasurement mentioned in the previous paragraph; however, in cases in which the early termination does not involve a cash disbursement, the Company cancels the lease liability and the corresponding right-of-use asset, recognizing the difference immediately in the consolidated statement of operations.

k. Intangible assets

Intangible assets are recognized in the consolidated statement of financial position when they meet the following conditions: they are identifiable, provide future economic benefits and the Company has control over such benefits.

Intangible assets are classified as follows:

(i) Indefinite useful life

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2020 and 2019, no factors have been identified limiting the life of these intangible assets.

(ii) Finite useful life

These assets are recognized at cost less accumulated amortization and impairment losses recognized. They are amortized on a straight line basis over their estimated useful life, determined based on the expectation of generating future economic benefits, and are subject to impairment tests when triggering events of impairment are identified.



The estimated useful lives of intangible assets with finite useful lives are summarized as follows:

Development costs	5 to 20 years
Relationships with customers	5 to 17 years
Software and licenses	3 to 11 years
Trademarks and patents	15 to 20 years

a. Goodwill

Goodwill represents the excess of the acquisition cost of a subsidiary over the Company's equity in the fair value of the identifiable net assets acquired, determined at the date of acquisition, and is not subject to amortization. Goodwill is shown under goodwill and intangible assets and is recognized at cost less accumulated impairment losses, which are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

b. Development costs

Research costs are recognized in income as incurred. Expenditures on development activities are recognized as intangible assets when such costs can be reliably measured, the product or process is technically and commercially feasible, potential future economic benefits are obtained and the Company intends also has sufficient resources to complete the development and to use or sell the asset. Their amortization is recognized in income by the straight-line method over the estimated useful life of the asset. Development expenditures that do not qualify for capitalization are recognized in income as incurred.

c. Other relationships with customers

The Company has recognized certain relationships with customers corresponding to the costs incurred to obtain new agreements with certain OEMs (Original Equipment Manufacturers), and which will be recognized as a revenue reduction over the term of these agreements. The amortization method used is based on the volume of units produced. As of December 31, 2020 and 2019, the Company recorded a reduction to revenue associated with the amortization of these assets of \$168 and \$165 for this item, respectively.

L. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not depreciable or amortizable and are subject to annual impairment tests. Assets that are subject to amortization are reviewed for impairment when events

or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels at which separately identifiable cash flows exist (cash generating units). Non-financial long-term assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

m. Income tax

The amount of income taxes in the consolidated statement of operations represents the sum of the current and deferred income taxes.

The amount of income taxes included in the consolidated statement of operations represents the current tax and the effects of deferred income tax assets determined in each subsidiary by the asset and liability method, applying the rate established by the legislation enacted or substantially enacted at the consolidated statement of financial position date, wherever the Company operates and generates taxable income. The applicable rates are applied to the total temporary differences resulting from comparing the accounting and tax bases of assets and liabilities, and that are expected to be applied when the deferred tax asset is realized or the deferred tax liability is expected to be settled, considering, when applicable, any tax-loss carryforwards, prior to the recovery analysis. The effect of the change in current tax rates is recognized in current income of the period in which the rate change is determined.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable law is subject to interpretation. Provisions are recognized when appropriate based on the amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized only when it is probable that future taxable profits will exist against which the deductions for temporary differences can be taken.

The deferred income tax on temporary differences arising from investments in subsidiaries and associates is recognized, unless the period of reversal of temporary differences is controlled by Nematik and it is probable that the temporary differences will not reverse in the near future.

Deferred tax assets and liabilities are offset just when a legal right exists and offset exists when the taxes are levied by the same tax authority.



n. Employee benefits

i. Pension plans

Defined contribution plans:

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to their service in the current and past periods. The contributions are recognized as employee benefit expense on the date that is required the contribution.

Defined benefit plans

A defined benefit plan is a plan, which specifies the amount of the pension an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates in conformity with the IAS 19 – Employee Benefits, that are denominated in the currency in which the benefits will be paid, and have maturities that approximate the terms of the pension liability.

Actuarial gains and losses from adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income in the year they occur.

The Company determines the net finance expense (income) by applying the discount rate to the liabilities (assets) from net defined benefits.

Past-service costs are recognized immediately in the consolidated statement of operations.

ii. Post-employment medical benefits

The Company provides medical benefits to retired employees after termination of employment. The right to access these benefits usually depends on the employee's having worked until retirement age and completing a minimum of years of service. The expected costs of these benefits are accrued over the period of employment using the same criteria as those described for defined benefit pension plans.

iii. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or when an employee accepts voluntary termination of employment in exchange for these benefits. The Company recognizes termination benefits in the first of the following dates: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes the costs from restructuring within the scope of the IAS 37 and it involves the payment of termination benefits. If there is an offer that promotes the termination of the employment relationship voluntarily by employees, termination benefits are valued based on the number of employees expected to accept the offer. The benefits that will be paid in the long term are discounted at their present value.

iv. Short-term benefits

The Company provides benefits to employees in the short term, which may include wages, salaries, annual compensation and bonuses payable within 12 months. Nematik recognizes an undiscounted provision when it is contractually obligated or when past practice has created an obligation.

v. Employee participation in profit and bonuses

The Company recognizes a liability and an expense for bonuses and employee participation in profits when it has a legal or assumed obligation to pay these benefits and determines the amount to be recognized based on the profit for the year after certain adjustments.

o. Provisions

Liability provisions represent a present legal obligation or a constructive obligation as a result of past events where an outflow of resources to meet the obligation is likely and where the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the value of money over time and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.



Provisions for legal claims are recognized when the Company has a present obligation (legal or assumed) as a result of past events, it is likely that an outflow of economic resources will be required to settle the obligation and the amount can be reasonably estimated.

A restructuring provision is recorded when the Company has developed a formal detailed plan for the restructure, and a valid expectation for the restructure has been created between the people affected, possibly for having started the plan implementation or for having announced its main characteristics to them.

p. Share-based payments

The Company has compensation plans based on the market value of Nemark and Alfa's shares in favor of certain senior executives. The conditions for granting such compensation to the eligible executives includes compliance with certain financial metrics such as the level of profit achieved and remaining in the Company for up to 5 years, among other requirements. The Board of Directors has appointed a technical committee to manage the plan, and it reviews the estimated cash settlement of this compensation at the end of the year. The payment plan is always subject to the discretion of the senior management of Nemark. Adjustments to this estimate are charged or credited to the consolidated statement of operations.

The fair value of the amount payable to employees in respect of share-based payments which are settled in cash is recognized as an expense, with a corresponding increase in liabilities, over the period of service required. The liability is included within other liabilities and is adjusted at each reporting date and the settlement date. Any change in the fair value of the liability is recognized as compensation expense in the consolidated statement of operations.

q. Treasury shares

The Company's stockholders periodically authorize a maximum amount for the acquisition of the Company's own shares. Upon the occurrence of a repurchase of its own shares, they become treasury shares and the amount is presented as a reduction to stockholders' equity at the purchase price. These amounts are stated at their historical value.

r. Capital stock

Nemark's SAB common shares are classified as capital stock within stockholders' equity. Incremental costs directly attributable to the issuance of new shares are included in equity as a reduction from the consideration received, net of tax.

s. Comprehensive income

Comprehensive income is composed of net income plus the annual effects of their capital reserves, net of taxes, which are comprised of the translation of foreign subsidiaries, the effects of derivative cash flow hedges, actuarial gains or losses, net investment hedges, the effects of the change in the fair value of financial instruments available for sale, the equity in other items of comprehensive income of associates, and other items specifically required to be reflected in stockholders' equity, and which do not constitute capital contributions, reductions and distributions.

t. Segment reporting

Segment information is presented consistently with the internal reporting provided to the chief operating decision maker who is the highest authority in operational decision-making, resource allocation and assessment of operating segment performance.

u. Revenue recognition

Revenues comprise the fair value of the consideration received or to receive for the sale of goods and services in the ordinary course of the transactions, and are presented in the consolidated statement of operations, net of the amount of variable considerations, which comprise the estimated amount of returns from customers, rebates and similar discounts and payments made to customers with the objective that goods are accommodated in attractive and favorable spaces at their facilities.

To recognize revenues from contracts with customers, the comprehensive model for revenue accounting is applied, which is based on a five-step approach consisting of the following: (1) identify the contract; (2) identify performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when the company satisfies a performance obligation.

Contracts with customers are given by commercial agreements with the OEM and complemented by purchase orders, whose costs comprise the promises to produce, distribute and deliver goods based on the contractual terms and conditions set forth, which do not imply a significant judgment to be determined. When there are payments related to obtaining new contracts, they are capitalized and amortized over the term of the contract obtained.



The Company evaluates whether the agreements signed for the development of tooling, in parallel with a production contract with the OEMs, should be combined as a single contract. In cases where the two contracts meet the characteristics to be combined, the Company's management evaluates whether the development of tooling represents a performance obligation, or a cost of fulfillment of the contract.

Based on the above, when determining the existence of separable performance obligations in a contract with customers, the management evaluates the transfer of control of the good or service to the customer, with the objective of determining the moment of revenue recognition related to each performance obligation.

Moreover, the payment terms identified in the majority of the sources of revenue are in the short-term, with variable considerations primarily focused on discounts and rebates of goods given to customers, without financing components or significant guarantees. These discounts and incentives to customers are recognized as a reduction to income or as sale expenses, according to their nature. Therefore, the allocation of the price is directly on the performance obligations of production, distribution and delivery, including the effects of variable considerations.

The Company recognizes revenue at a point in time, when control of sold goods has been transferred to the customer, which is given upon delivery and acceptance of the goods promised to the customer according to the negotiated incoterm. An account receivable is recognized when the performance obligations have been met, recognizing the corresponding revenue.

v. Advanced payments

Advanced payments mainly comprise insurance and the corporate fee paid to suppliers. These amounts are recorded based on the contractual value and are carried to the consolidated statement of operations on a monthly basis during the life to which each advanced payment corresponds: the amount that corresponds to the portion to be recognized within the next 12 months is presented in current assets and the remaining amount is presented in non-current assets.

w. Earnings per share

Earnings per share are calculated by dividing the profit attributable to the stockholders of the parent by the weighted average number of common shares outstanding during the year. As of December 31, 2020 and 2019, there are no dilutive effects from financial instruments potentially convertible into shares.

x. Changes in accounting policies and disclosures

i. New standards and changes adopted by the Company.

In the current year, the Company has applied a number of new and amended IFRS and interpretations issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2020. The conclusions related to their adoption are described as follows:

Amendments to IFRS 16, Rent Concessions Related to Covid-19

The amendments introduce a practical expedient that provides lessees the option not to assess whether a rent concession that meets certain conditions is a lease modification. The practical expedient is applicable to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

- The change in the lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

The Company did not have any significant impacts on its consolidated financial statements due to adopting the amendment, as it did not receive significant concessions during the year. Additionally, the Company adopted the following amendments, which did not have any effects on the financial statements in the current year:

- Amendments to IAS 1 and IAS 8, Definition of Materiality
- Amendments to IFRS 3, Definition of a Business
- Amendments to IFRS 4, Insurance Contracts in the application of IFRS 9, Financial Instruments
- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform
- Amendments to the IFRS's conceptual framework

ii. New and revised IFRS in issue but not yet effective

At the date of authorization of these financial statements, the Company has not applied the following new and revised IFRS that have been issued but are not yet effective. The Company is determining the impacts that these modifications could have on its consolidated financial statements, however, only precision effects are expected in the accounting policies:



- Amendments to IAS 1, Classification of Liabilities as Current or Non-current ⁽¹⁾
- Amendments to IAS 16, Property, Plant and Equipment Proceeds before Intended Use ⁽¹⁾
- Amendments to IFRS 9, Financial instruments ⁽¹⁾
- IFRS 17, Insurance Contracts ⁽²⁾

(1) Effective for annual reporting periods beginning on January 1, 2022

(2) Effective for annual reporting periods beginning on January 1, 2023

Additionally, the Company is continuously monitoring the progress of the reference interest rate reform project that modifies the regulations as mentioned below:

- Phase 2 of the benchmark interest rate reform (IBOR- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Interbank benchmark rates such as LIBOR, EURIBOR and TIBOR, which represent the cost of obtaining unsecured funds, have been questioned about their viability as long-term financing benchmarks. The changes in the reform to the reference interest rates in its phase 2 refer to the modifications of financial assets, financial liabilities and lease liabilities, requirements for accounting coverage and disclosure of financial instruments. These improvements are effective as of January 1, 2021 with retrospective application, without the need to redo the comparative periods.

Regarding the modification of financial assets, financial liabilities and lease liabilities, the IASB introduced a practical expedient that involves updating the effective interest rate.

On the other hand, regarding hedge accounting, the hedge relationships and documentation must reflect the modifications to the hedged item, the hedging instrument and the risk to be hedged. Hedging relationships must meet all criteria for applying hedge accounting, including effectiveness requirements.

Finally, regarding disclosures, entities should disclose how they are managing the transition to alternative reference rates and the risks that may arise from the transition; in addition, they must include quantitative information on financial assets and non-derivative financial liabilities, as well as non-derivative financial instruments, that continue under the reference rates subject to the reform and the changes that have arisen to the risk management strategy.

The Company is in the process of evaluating the impacts arising from the application of these amendments.

4. Financial instruments and financial risk management

The Company's activities expose it to various financial risks; market risk (including exchange rate risk, aluminum, price risk, and interest rate variation risk), credit risk and liquidity risk.

The Company has a general risk management program focused on the unpredictability of financial markets, and seeks to minimize the potential adverse effects on its financial performance. The objective of the risk management program is to protect the financial health of its business, taking into account the volatility associated with prices, foreign exchange and interest rates. The Company uses derivative financial instruments to hedge certain exposures to risks, including hedges of input prices.

The proposed transactions must meet certain criteria, including that the hedges are lower than established risk parameters, and that they are the result of a detailed analysis and properly documented. Sensitivity analysis and other risk analyses should be performed before the operation is entered into.

The Company's risk management policy indicates that the hedging positions should always be lower than the projected exposure to allow for an acceptable margin of uncertainty. Being unhedged operations expressly forbidden. The Company's risk management policy indicates the maximum percentages must be hedged with respect to the projected exposure:

	Maximum coverage (as a percentage of the projected exposure) Current year
Commodities	100
Energy costs	75
Exchange rate for operating transactions	80
Exchange rate for financial transactions	100
Interest rates	100

Capital management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to stockholders and benefits to other stakeholders, as well as maintaining an optimal capital structure to reduce cost of capital.



To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to stockholders, return equity to stockholders, issue new shares or sell assets to reduce debt.

Nemak monitors capital based on a leverage ratio. This percentage is calculated by dividing total liabilities by total equity.

The financial ratio of total liabilities/total equity was 1.77 and 1.61 as of December 31, 2020 and 2019, respectively, resulting in a leverage ratio that complies with the Company's management and risk policies.

Financial instruments by category

Below are the Company's financial instruments by category:

As of December 31, 2020 and 2019, financial assets and liabilities consist of the following:

	2020	2019
Cash and cash equivalents	\$ 8,720	\$ 5,883
Restricted cash	256	276
FINANCIAL ASSETS MEASURED AT AMORTIZED COST:		
Trade and other accounts receivable	9,133	7,518
	\$ 18,109	\$ 13,677
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST:		
Debt	\$ 31,213	\$ 26,737
Lease liability	1,976	1,853
Trade and accounts payable to related parties	17,451	16,061
	\$ 50,640	\$ 44,651

Fair value of financial assets and liabilities measured at amortized cost

The amount of cash and cash equivalents, restricted cash, customers and other accounts receivable, other current assets, trade and other accounts payable, current debt, other current liabilities approximate their fair value, because their maturity date is less than twelve months. The net carrying amount of these accounts represents the expected cash flows to be received as of December 31, 2020 and 2019.

The carrying amount and estimated fair value of non-current financial assets and liabilities valued at amortized cost is presented below:

	As of December 31, 2020		As of December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS:				
Non-current accounts receivable	\$ -	\$ -	\$ 2	\$ 1
FINANCIAL LIABILITIES:				
Debt	\$27,239	\$27,959	\$24,751	\$25,606

Estimated fair values as of December 31, 2020 and 2019, were determined based on a discounted cash flow basis. Measurement at fair value of non-current accounts is considered within level 3 of the fair value hierarchy, whereas, for the financial debt, the measurement at fair value is considered within levels 1 and 2 of the hierarchy.

Market risks

(i) Exchange rate risk

The Company operates internationally, and is exposed to foreign exchange risk, primarily derived from the transactions and balances that the subsidiaries conduct and have in foreign currency, respectively. A foreign currency is that which is different from the functional currency of an entity. In addition, the Company is exposed to changes in the value of financial instruments arising from foreign exchange variations.

The respective exchange rates of the Mexican peso, the U.S. dollar and the Euro are very important factors for the Company due to the effect they have on its consolidated results. Nemak estimates that approximately 52% of its sales are U.S. dollars denominated, 36% in Euros, and the remaining 12% in other currencies since the price of its products is set based on such currencies.

The main risk of the Company associated with its financial instruments comes from its debt in foreign currency, mainly in euros, held by entities whose functional currency is the US dollar. In addition, the Company maintains assets and liabilities denominated in foreign currency in relation to the functional currency of the subsidiaries in Mexican pesos and Euros. The monetary position in euros has been converted to millions of Mexican pesos at the closing exchange rate of December 31, 2020:



	MXP	EUR
Financial assets	\$ 360	\$ 53
Financial liabilities	(3,446)	(12,400)
Financial position in foreign currency	\$ (3,086)	\$ (12,347)

The exchange rate used to convert the financial position in foreign currency from Euros to Mexican pesos, is described on Note 3.

Based on the monetary positions in foreign currencies that the Company maintains, a hypothetical variation of 10% in the exchange rate USD/MXP and USD/EUR, maintaining all the other variables constant, will result in an effect of \$841 in the consolidated statements of operations and of \$1,543 in equity.

Financial instruments to hedge net investments in foreign transactions

The Company designates certain non-current debt instruments as hedges to net investments in foreign transactions in order to mitigate the variations in exchange rates arising between the functional currency for such transactions and the functional currency of the holding or sub-holding company that maintains these investments.

The Company formally designated and documented each hedging relationship establishing objectives, management's strategy to cover the risk, the identification of the hedging instrument, the hedged item, the nature of the risk to be hedged, and the methodology to assess the effectiveness. Given that the exchange rate hedging relationship is clear, the method that the Company used to assess the effectiveness consisted of a qualitative effectiveness test by comparing the critical terms between the hedging instruments and the hedged items. The hedging effectiveness results confirm that the hedging relationships are highly effective due to the economic relationship between the hedging instrument and the hedged items. For its part, when the value of the net assets of the foreign transaction is less than the notional value of the designated debt, the company performs a rebalancing of the hedging relationship and recognizes ineffectiveness in the statement of results.

The Company maintains the following hedging relationships:

As of December 31, 2020					
Holding	Functional Currency	Hedging Instrment	Notional Value (Euros)	Covered item	Net assets of the hedged item (Euros)
Nemak, S. A. B. de C. V.	USD	Senior Notes	€ 284	Nemak Dillingen GmbH	€ 126
		Bank Loans	4	Nemak Linz GmbH	27
				Nemak Gyor Kft.	130
				Nemak Slovakia, S.r.o.	53
				Nemak Wernigerode GmbH	66
				Nemak Czech Republic, S.r.o.	56
				Nemak Poland Sp.z.o.o.	40
				Nemak Spain, S.L.	28
				Nemak Pilsting GmbH	11
				Nemak Izmir Dokum Sanayi A.S.	50
			€ 288		€ 587



As of December 31, 2019					
Holding	Functional Currency	Hedging Instrmt	Notional Value (Euros)	Covered item	Net assets of the hedged item (Euros)
Nemak, S. A. B. de C. V.	USD	Senior Notes	€ 211	Nemak Dillingen GmbH	€ 109
		Bank Loans	4	Nemak Linz GmbH	29
				Nemak Gyor Kft.	125
				Nemak Slovakia, S.r.o.	43
				Nemak Wernigerode GmbH	67
				Nemak Czech Republic, S.r.o.	55
				Nemak Poland Sp.z.o.o.	45
				Nemak Spain, S.L.	36
				Nemak Pilsting GmbH	10
				Nemak Izmir Dokum Sanayi A.S.	46
€ 215				€ 565	

The average coverage ratio of the Company amounted to 49.35% and 35.38% for the years ended December 31, 2020 and 2019, respectively. Therefore, the exchange rate fluctuation generated by the hedging instruments for the years ended December 31, 2020 and 2019 amounted to a net loss of \$(687) and a profit of \$84, respectively, which was recognized in other comprehensive income compensating the translation effect by each foreign investment. The results of the effectiveness of each hedging instrument confirms that the hedging relationships are highly effective due to the economic relationship between the hedging instruments and the hedging items.

(ii) Price risk commodities

a. Aluminum

Nemak utilizes significant amounts of aluminum in the form of scrap, as well as ingots as its main raw material. In order to mitigate the risks related to the volatility of the prices of this commodity, the Company has entered into

agreements with its customers, whereby the variations of aluminum prices are transferred to the sales price of the products through a pre-established formula.

However, there is a residual risk since each OEM uses its own formula to estimate aluminum prices, which normally reflects market prices based on an average term that may range from one to three months. As a result, the basis used by each OEM to calculate the prices of aluminum alloys may differ from the ones used by the Entity to buy aluminum, which could negatively or positively impact its business, financial position and the results of its operations.

b. Natural gas

Nemak is an entity that uses natural gas to carry out its operating processes and develop its products. This consumption has grown as the volume of their end products increase, which causes that an increase in the price of natural gas creates negative effects on the operating cash flows. In order to mitigate its exposure to the price of this material, the Entity conducts, some natural gas hedging transactions using derivative instruments. Therefore, according to its risk management program, the Company enters into hedges against the exposure to the increase in natural gas prices, for future purchases by entering into swaps where variable prices are received and a fixed price is paid. A strategy called roll-over has been implemented, through which it is analyzed each month if more derivatives should be contracted to expand the time or the amount of hedging. As of December 31, 2020 and 2019, the Company does not keep open positions of this type of derivative financial instruments.

Interest rate risk

The Company is exposed to interest rate risk mainly for long-term loans bearing interest at variable rates. Fixed-interest loans expose the Company to interest rate risk at fair value, which implies that Nemak might be paying interest at rates significantly different from those of an observable market.

As of December 31, 2020, if interest rates on variable rate are increased or decreased by 100 basis points in relation to the rate in effect, the income and stockholders' equity of the Company would change by \$311.

Credit risk

The credit risk represents the potential loss due to non-compliance of counterparts in their payment obligations. Credit risk is generated by cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to customers, including receivables and committed transactions.



The Company is managed on a group basis and credit risk profile, the significant clients with whom it maintains a receivable, distinguishing those that require an individual credit risk assessment. For the rest of the clients, the company carries out its classification according to the type of market in which they operate, according with the business management and the internal risk management. Each subsidiary is responsible for managing and analyzing credit risk for each of its new customers before setting the terms and conditions of payment. If wholesale customers are qualified independently, these are the qualifications used. If there is no independent qualification, the company's risk control assesses the customer's credit quality, taking into account its financial position, previous experience and other factors. The maximum exposure to credit risk is given by the balances of these items as presented in the consolidated state of financial position.

Individual risk limits are determined based on internal and external ratings in accordance with limits set in the financial risk management policy. The use of credit risks is monitored regularly. Sales to retail customers are in cash or credit cards. During 2020 and 2019, credit limits were not exceeded and management does not expect losses in excess of the impairment recognized in the corresponding periods.

In addition, the Company performs a qualitative evaluation of economic projections, with the purpose of determining the possible impact on probabilities of default and the rate of recovery that it assigns to its clients.

During the year ended December 31, 2020, there have been no changes in the techniques of estimation or assumption.

Liquidity risk

Projected cash flows are determined at each operating subsidiary of the Company and subsequently the finance department consolidates this information. The finance department of the Company continuously monitors the cash flow projections and liquidity requirements of the Company ensuring that sufficient cash and liquid investments are maintained to meet operating needs, and that some flexibility is maintained through unused committed credit lines.

The Company regularly monitors and makes decisions ensuring that the limits or covenants set forth in debt contracts are not breached. The projections consider the financing plans of the Company, compliance with covenants, compliance with minimum liquidity ratios and internal legal or regulatory requirements.

The Company's treasury department invests those funds in time deposits, with high credit quality whose maturities or liquidity allow flexibility to meet the cash flow needs of the Company.

The following table analyzes the non-derivative financial instruments, grouped according to their maturity, from the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

	Less than a year	From 1 to 5 years	More than 5 years
AS OF DECEMBER 31, 2020			
Trade and accounts payable to related parties	\$ 17,451	\$ -	\$ -
Debt (excluding debt obtaining costs)	4,267	1,741	3,776
Lease liability	422	1,189	365
Senior Notes (excluding issuance costs)	870	24,930	-
Interest payable	346	-	-
AS OF DECEMBER 31, 2019			
Trade and accounts payable to related parties	\$ 16,061	\$ -	\$ -
Debt (excluding debt obtaining costs)	2,163	1,937	4,011
Lease liability	372	1,151	330
Senior Notes (excluding issuance costs)	791	23,307	-
Interest payable	320	-	-

The Company expects to meet its obligations with cash flows generated by operations. Additionally, Nematik has access to credit lines with various banks to meet possible requirements.

As of December 31, 2020 and 2019, the Company has uncommitted short term credit lines unused for more than US\$425 (\$8,478) and US\$734 (\$13,836), respectively. Additionally, as of December 31, 2020 and 2019, Nematik has committed medium-term credit lines available of US\$412 (\$8,215) and US\$404 (\$7,613) respectively. In order to maintain a solid liquidity position and have sufficient cash on hand to support operations and COVID-19 impacts, during the year ended December 31, 2020, Nematik disposed all of its committed lines for US\$412, liquidating them in November. On the other hand, the uncommitted lines were disposed for US\$250 during March, partially liquidated in December.



Fair value hierarchy

The following is an analysis of financial instruments measured in accordance with the fair value hierarchy. The 3 different levels of the fair value hierarchy are presented below:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Other valuations including quoted prices for similar instruments in active markets, which are directly or indirectly observable.
- Level 3: Valuations made through techniques where one or more of their significant data inputs are unobservable.

The Company's assets and liabilities that are measured at fair value as of December 31, 2020 and 2019, are classified within the level 2 of the fair value hierarchy.

There were no transfers between Levels 1 and 2 or between Level 2 and 3 during the period.

The specific valuation techniques used to value financial instruments include:

- Market quotations or trader quotations for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves.
- The fair value of forward exchange agreements is determined using exchange rates at the closing balance date, with the resulting value discounted at present value.
- Other techniques such as the analysis of discounted cash flows, which are used to determine fair value of the remaining financial instruments.

5. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a. Estimated impairment of goodwill

The Company conducts annual tests to determine whether goodwill and intangibles assets with indefinite useful lives have suffered any impairment (Note 12). For impairment testing, goodwill and intangibles assets with indefinite lives are allocated with those cash generating units ("CGUs") of which the Company has considered that economic and operational synergies of the business combinations are generated. The recoverable amounts of the groups of CGUs were determined based on the calculations of their value in use, which require the use of estimates, within which, the most significant are the following:

- Future gross and operating margins according to the historical performance and expectations of the industry for each CGU group.
- Discount rate based on the weighted cost of capital (WACC) of each CGU or CGU group.
- Long-term growth rates.

b. Recoverability of deferred tax assets

The Company has tax losses to be utilized, derived mainly from significant foreign exchange losses, which may be used in the subsequent years (Note 25). Based on income and tax revenue projections Nemak will generate in subsequent years through a structured and robust business plan, which includes the sale of non-strategic assets, new services to be provided to its subsidiaries, among others, the Company's management has considered that its tax loss carryforwards will be used before they expire and therefore it has been deemed appropriate to recognize a deferred tax asset for such losses.

c. Contingent liabilities

Management also makes judgments and estimates in recording provisions for matters relating to claims and litigation. Actual costs may vary from estimates for several reasons, such as changes in cost estimates for resolution of complaints and disputes based on different interpretations of the law, opinions and evaluations concerning the amount of loss.

Contingencies are recorded as provisions when it is likely that a liability has been incurred and the amount of the loss is reasonably estimable. It is not practical to estimate sensitivity to potential losses if other assumptions were used to record these provisions, due to the number of underlying assumptions and the range of possible reasonable outcomes regarding potential actions by third parties, such as regulators, both in terms of loss probability and estimates of such loss.



d. Long lived assets

The Company estimates the useful lives of long-lived assets in order to determine the depreciation and amortization expenses to be recorded during the reporting period. The useful life of an asset is calculated when the asset is acquired and is based on past experience with similar assets, considering anticipated technological changes or any other type of changes. Were technological changes to occur faster than estimated, or differently than anticipated, the useful lives assigned to these assets could have to be reduced. This would lead to the recognition of a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of a charge for impairment to reflect the reduction in the expected future economic benefits associated with the assets.

The Company reviews the impairment indicators for depreciable and amortizable assets annually, or when certain events or circumstances indicate that the book value may not be recovered in the remaining useful life of those assets. On the other hand, intangible assets with an indefinite useful life are subject to impairment tests at least every year and provided there is an indication that the asset could have deteriorated.

To evaluate the impairment, the Company uses cash flows, which consider the administrative estimates for future transactions, including estimates for revenues, costs, operating expenses, capital expenses and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or cash-generating unit (CGU) would be compared to the value in books of the asset or CGU at issue to determine if impairment exists or a reversal of impairment whenever the aforementioned discounted future cash flows are less than its book value. In such case, the carrying amount of the asset or group of assets is reduced to its recoverable amount.

e. Estimation of default probabilities and recovery rate to apply the model of expected losses in the calculation of impairment of financial assets.

The Company assigns to customers with whom it maintains an account receivable at each reporting date, either individually or as a group, an estimate of the probability of default on the payment of accounts receivable and the estimated recovery rate, with the purpose of reflecting the cash flows expected to be received from the outstanding balances on said date.

f. Estimation of the discount rate to calculate the present value of future minimum income payments

The Company estimates the discount rate to be used in determining the lease liability, based on the incremental loan rate ("IBR").

The Company uses a three-tier model, with which it determines the three elements that make up the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, management also considers its policies and practices to obtain financing, distinguishing between that obtained at the corporate level (that is, by the holder), or at the level of each subsidiary. Finally, for the leases of real estate, or, in which there is significant and observable evidence of its residual value, the Company estimates and evaluates an adjustment for the characteristics of the underlying asset, taking into account the possibility that said asset be granted as collateral or guarantee against the risk of default.

g. Estimate of the lease term

The Company defines the term of the leases as the period for which there is a contractual payment commitment, considering the non-cancelable period of the contract, as well as the renewal and early termination options that are likely to be exercised. The Company participates in lease agreements that do not have a definite forced term, a defined renewal period (if it contains a renewal clause), or automatic annual renewals, so, to measure the lease liability, it estimates the term of the contracts considering their contractual rights and limitations, their business plan, as well as the administration's intentions for the use of the underlying asset. Additionally, the Company considers the early termination clauses of its contracts and the probability of exercising them, as part of its estimate of the lease term.



6. Cash and cash equivalents

Cash and cash equivalents presented in the consolidated statements of financial position consist of the following:

	December 31	
	2020	2019
Cash on hand and in banks	\$ 2,943	\$ 2,150
Short-term bank deposits	5,777	3,733
Total cash and cash equivalents	\$ 8,720	\$ 5,883

7. Restricted cash

The value of restricted cash is composed as follows:

	December 31	
	2020	2019
Current	\$ 121	\$ 120
Non-current (Note 13)	135	156
Restricted cash⁽¹⁾	\$ 256	\$ 276

⁽¹⁾ In accordance with the provisions of a credit agreement, the Company has made long term cash deposit pursuant to a preferential loan arranged in order to participate in a financing by a US agency to promote investment in rural / low-development regions in the USA.

8. Trade and other accounts receivables, net

	December 31	
	2020	2019
CURRENT:		
Trade accounts receivable	\$ 6,354	\$ 4,790
Due from related parties (Note 26)	1,076	779
Recoverable taxes	96	342
Sundry debtors	1,946	2,179
Allowance for impairment of trade accounts receivable and related parties	(243)	(230)
Total	\$ 9,229	\$ 7,860
NON-CURRENT:		
Non-current receivable due from related parties (Note 26)	\$ -	\$ 2

Movements in the allowance for impairment of trade accounts receivable are as follows:

	2020	2019
Opening balance as of January 1	\$ (230)	\$ (251)
Allowance for impairment of trade and related parties	(43)	-
Receivables written off during the year	43	20
Other	(13)	1
Final balance as of December 31	\$ (243)	\$ (230)

The net change in the estimate of impairment of accounts receivable for the years ended December 31, 2020 and 2019 were \$(243) and \$(230), respectively, was mainly due to changes in the estimation of probabilities of default and the percentage of recovery, allocated to different customer groups in which the Company operates, which reflected an increase in credit risk over these financial assets.



The following describes the probability ranges of default and recovery rates allocated to the main customer segments with which the company has balances receivable in its different businesses:

As of December 31, 2020		
Clients or group of clients	Probability range of default	Severity range of loss
Automotive	0.00% - 3.75% ⁽¹⁾	99.31%
Related parties	0.00% - 0.61%	99.09%

As of December 31, 2019		
Clients or group of clients	Probability range of default	Severity range of loss
Automotive	0.00% - 0.54%	99.54%
Related parties	0.00% - 0.20%	99.82%

⁽¹⁾ The maximum probability range of default belongs to a single client. All the other clients of the Company maintain a maximum probability of default of 0.73%.

Increases and decreases in customer impairment estimation, when they do not imply the legal loss of an account receivable, are recognized in the consolidated statement of operations within the heading of sales costs. On the other hand, when collection rights are legally lost, the Company cancels the accumulated doubtful collection estimate, with the gross amount of the account receivable

The company does not maintain any significant collateral or guarantees that mitigate exposure to the credit risk of its financial assets.

9. Inventories

December 31		
	2020	2019
Raw material and other consumables	\$ 6,024	\$ 5,310
Work in process	4,134	3,969
Finished goods	2,527	1,867
	\$ 12,685	\$11,146

For the years ended on December 31, 2020 and 2019, damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of \$78 and \$65, respectively.

At December 31, 2020 and 2019, there were no inventories pledged as collateral.



10. Property, plant and equipment, net

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture and equipment	Constructions in progress	Other fixed assets	Total
FOR THE YEAR ENDED DECEMBER 31, 2019								
Opening balance, net	\$ 1,685	\$ 9,197	\$ 32,911	\$ 48	\$ 819	\$ 5,860	\$ 1,109	\$ 51,629
Reclasifications to right-of-use asset	-	(534)	-	(7)	(22)	-	-	(563)
Translation effect	(84)	(414)	(1,611)	5	(38)	(307)	(56)	(2,505)
Additions	-	9	348	-	26	4,697	226	5,306
Disposals	-	(1)	(7)	-	(23)	(10)	(11)	(52)
Impairment charge recognized in the year	-	(73)	(832)	-	1	-	(11)	(915)
Depreciation charge recognized in the year	-	(477)	(4,011)	(23)	(227)	-	(22)	(4,760)
Transfers	6	663	4,350	19	123	(5,182)	21	-
	\$ 1,607	\$ 8,370	\$ 31,148	\$ 42	\$ 659	\$ 5,058	\$ 1,256	\$ 48,140
As of December 31, 2019								
Cost	\$ 1,607	\$ 14,608	\$ 78,708	\$ 201	\$ 2,362	\$ 5,058	\$ 1,314	\$ 103,858
Accumulated depreciation	-	(6,238)	(47,560)	(159)	(1,703)	-	(58)	(55,718)
Net carrying amount as of December 31, 2019	\$ 1,607	\$ 8,370	\$ 31,148	\$ 42	\$ 659	\$ 5,058	\$ 1,256	\$ 48,140
FOR THE YEAR ENDED DECEMBER 31, 2020								
Opening balance, net	\$ 1,607	\$ 8,370	\$ 31,148	\$ 42	\$ 659	\$ 5,058	\$ 1,256	\$ 48,140
Translation effect	71	730	3,081	5	98	399	96	4,480
Additions	-	-	166	-	2	4,168	103	4,439
Disposals	-	-	-	-	(1)	-	(211)	(212)
Impairment charge recognized in the year	-	-	(133)	-	-	-	-	(133)
Depreciation charge recognized in the year	-	(522)	(4,438)	(17)	(229)	-	(17)	(5,223)
Transfers	-	430	4,001	11	97	(4,548)	9	-
	\$ 1,678	\$ 9,008	\$ 33,825	\$ 41	\$ 626	\$ 5,077	\$ 1,236	\$ 51,491
As of December 31, 2020								
Cost	\$ 1,678	\$ 16,351	\$ 89,480	\$ 287	\$ 2,726	\$ 5,077	\$ 1,317	\$ 116,916
Accumulated depreciation	-	(7,343)	(55,655)	(246)	(2,100)	-	(81)	(65,425)
Net carrying amount as of December 31, 2020	\$ 1,678	\$ 9,008	\$ 33,825	\$ 41	\$ 626	\$ 5,077	\$ 1,236	\$ 51,491



The Company capitalized borrowing costs to qualifying assets, which were not significant as of December 31, 2020.

Of the total depreciation expense, \$4,902 and \$4,498 were charged to cost of sales, \$5 and \$1, to selling expenses and \$316 and \$261, to administrative expenses in 2020 and 2019, respectively.

As of December 31, 2020 and 2019, there were property, plant and equipment pledged as collateral.

The other fixed assets are mainly made up of spare parts and long-term improvements.

11. Right-of-use asset

The Company leases a different set of fixed assets including, buildings, machinery and equipment, vehicles, and computer equipment. The average term of the lease contracts as of December 31, 2020 and 2019 is of 12 years.

a) The right of use recognized in the consolidated statement of financial position as of December 31, 2020 and 2019, is integrated as follows:

	Buldings	Machinery and equipment	Vehicles	Other fixed assets	Total
Cost:					
Adoption effect	\$ 584	\$ 170	\$ 114	\$ 34	\$ 902
Property, plant and equipment reclassification	534	-	7	22	563
Initial balances as of January 1, 2019	\$ 1,118	\$ 170	\$ 121	\$ 56	\$ 1,465
Final balances as of December 31, 2019	\$ 1,084	\$ 122	\$ 497	\$ 60	\$ 1,763
Final balances as of December 31, 2020	\$ 1,264	\$ 135	\$ 343	\$ 55	\$ 1,797
Depreciation expense 2019	\$ (139)	\$ (93)	\$ (191)	\$ (19)	\$ (442)
Depreciation expense 2020	\$ (217)	\$ (92)	\$ (209)	\$ (30)	\$ (548)

The additions to the net book value of the right of use assets for the years ended December 31, 2020 and 2019 amounted \$376 and \$771, respectively.

b) Expenses recognized in the consolidated statement of operations for the years ended December 31, 2020 and 2019.

	December 31	
	2020	2019
Rent expenses from a short term and low-value assets leases	\$ 255	\$ 319

The Company has not signed lease contracts, which at the date of the consolidated financial statements have not started.

During the year, the Company did not realize significant extensions to the term of its lease contracts.



12. Goodwill and intangible assets

	Development costs	Relationships with customers	Software and licenses	Intellectual property rights	Goodwill	Others	Total
COST							
As of January 1, 2019	\$ 8,652	\$ 1,971	\$ 333	\$ 112	\$ 5,850	\$ 690	\$ 17,608
Translation effects	(933)	231	(9)	(10)	(315)	(57)	(1,093)
Additions	1,564	35	16	-	-	3	1,618
Disposals	(12)	(53)	(2)	-	-	(1)	(68)
As of December 31, 2019	\$ 9,271	\$ 2,184	\$ 338	\$ 102	\$ 5,535	\$ 635	\$ 18,065
Translation effects	693	307	16	6	659	(11)	1,670
Additions	965	221	13	-	-	17	1,216
Disposals	-	-	(14)	-	-	(6)	(20)
As of December 31, 2020	\$ 10,929	\$ 2,712	\$ 353	\$ 108	\$ 6,194	\$ 635	\$ 20,931
ACCUMULATED AMORTIZATION							
January 1, 2019	\$ (4,294)	\$ (1,239)	\$ (258)	\$ (106)	\$ -	\$ -	\$ (404)
Amortizations	(750)	(218)	(27)	-	-	(47)	(1,042)
Disposals	12	13	2	-	-	-	27
Translation effects	286	76	14	4	-	53	433
As of December 31, 2019	\$ (4,746)	\$ (1,368)	\$ (269)	\$ (102)	\$ -	\$ (398)	\$ (6,883)
Amortizations	(931)	(218)	(28)	-	-	(46)	(1,223)
Disposals	-	-	14	-	-	6	20
Translation effects	(418)	(196)	(9)	(6)	-	5	(624)
As of December 31, 2020	\$ (6,095)	\$ (1,782)	\$ (292)	\$ (108)	\$ -	\$ (433)	\$ (8,710)
NET CARRYING AMOUNT							
Cost	\$ 9,271	\$ 2,184	\$ 338	\$ 102	\$ 5,535	\$ 635	\$ 18,065
Accumulated amortization	(4,746)	(1,368)	(269)	(102)	-	(398)	(6,883)
As of December 31, 2019	\$ 4,525	\$ 816	\$ 69	\$ -	\$ 5,535	\$ 237	\$ 11,182
Cost	\$ 10,929	\$ 2,712	\$ 353	\$ 108	\$ 6,194	\$ 635	\$ 20,931
Accumulated amortization	(6,095)	(1,782)	(292)	(108)	-	(433)	(8,710)
As of December 31, 2020	\$ 4,834	\$ 930	\$ 61	\$ -	\$ 6,194	\$ 202	\$ 12,221



Of the total amortization expense, \$869 and \$639, were charged to cost of sales, \$183 and \$232, to administrative expenses, \$3 and \$6 to selling expenses, \$168 and \$165 decreasing the revenues to costs incurred to obtain new agreements with clients in 2020 and 2019, respectively.

Impairment testing of goodwill

Goodwill is allocated to operating segments that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units or groups of units, as follows:

	North America	Europe	Total
Balance as of January 1, 2019	\$ 2,103	\$ 3,747	\$ 5,850
Exchange differences	(90)	(225)	(315)
Balance as of December 31, 2019	2,013	3,522	5,535
Exchange differences	117	542	659
Balance as of December 31, 2020	\$ 2,130	\$ 4,064	\$ 6,194

The estimated gross margin has been budgeted based on past performance and market development expectations. The growth rate used is consistent with the projections included in the industry reports. The discount rate used is before taxes and it reflects the inherent risk in future cash flows.

The recoverable amount of all cash generating units has been determined based on fair value less costs of disposal considering a market participant's perspective. These calculations use cash flow projections based on pre-tax financial budgets approved by management covering a 5 year period. Cash flows beyond the 5 year period are extrapolated using the estimated growth rates stated below.

The key assumptions used in calculating the value in use in 2020 and 2019 were as follows:

	2020		
	North America	Europe	Rest of the World
Growth rate	1.50%	1.50%	2.50%
Discount rate	10.97%	10.15%	11.57%

	2019		
	North America	Europe	Rest of the World
Growth rate	1.50%	1.50%	2.50%
Discount rate	12.90%	10.70%	9.74%

The Company performed a sensitivity analysis considering an increase in the discount rate of 100 basis points, as well as a similar decrease in the long-term growth rate. As a result of the analysis, the Company concluded that there are no significant variations with the impairment calculations as of December 31, 2020.

13. Other non-current assets

	December 31	
	2020	2019
Restricted cash	\$ 135	\$ -
Equity investments ⁽¹⁾	71	71
Investments in associates	565	544
Tax credits receivable ⁽²⁾	128	315
Other assets	103	111
Total other non-current assets	\$1,002	\$ 1,197

⁽¹⁾ Equity investments are investment in shares of companies of non-public companies. No impairment loss was recognized as of December 31, 2020 and 2019.

⁽²⁾ The Company received formal notices from the Brazilian tax authorities corresponding to tax credits, related to their review of its operations in Brazil. Pending the resolution of these requirements, and by virtue of a court order, Nemak segregated bank balances which will be reimbursed to the Company upon final resolution. In the first semester of 2019, the Company obtained the final court decision related to its right to utilize tax credits for \$315 the last 15 years with no possibility of appeal from the Federal government, additionally the corresponding bank balances were refunded.



The accumulated summarized financial information for investments in associates accounted for under the equity method and that are not considered material, is as follows:

	2020	2019
Net (loss) income and comprehensive income	\$ (29)	\$ 41

There are no contingent liabilities or commitments related to the Company's investments in associates.

14. Trade and other accounts payable

	December 31	
	2020	2019
Trade account payable	\$ 17,408	\$ 16,008
Advances from customers	522	521
Other social security fees and benefits	1,859	1,258
Related parties (Note 26)	43	53
Other payables	5,153	3,326
	\$ 24,985	\$ 21,166

15. Debt

	December 31	
	2020	2019
CURRENT:		
Bank loans ⁽¹⁾	\$ 3,894	\$ 1,955
Current portion of non-current debt	250	22
Interest payable ⁽¹⁾	346	320
Total current debt ⁽²⁾	\$ 4,490	\$ 2,297
NON-CURRENT DEBT:		
Secured bank loans	\$ 5	\$ 9
Unsecured bank loans	5,057	4,743
In U.S dollars:		
Senior Notes	9,974	9,422
In Euros:		
Senior Notes	12,203	10,577
Non-current debt before debt issuance and obtaining costs	27,239	24,751
Less: Debt issuance and obtaining costs	(266)	(289)
Less: current portion of other debts	(250)	(22)
Non-current debt	\$ 26,723	\$ 24,440

⁽¹⁾ As of December 31, 2020 and 2019, short-term bank loans bore interest at an average rate of 3.97% and 4.27%, respectively.

⁽²⁾ The fair value of bank loans approximate their current book value, due to their short maturity.



The carrying amounts, terms and conditions of non-current debt were as follows:

Description	Contractual currency	Value (MXP)	Debt issuance and obtaining costs	Interest paid	Balance as of December 31, 2020	Balance as of December 31, 2019	Inception date DD/MM/YYYY	Maturity date DD/MM/YYYY	Interest rate
Brazil	BRL	\$ 5	\$ -	\$ -	\$ 5	\$ 9	31/01/2016	20/01/2025	6.00%
Total secured bank loans		5	-	-	5	9			
Bancomext LP	USD	3,790	20	18	3,788	3,599	23/12/2019	23/12/2029	Libor 3M +2.70%
Scotiabank Turquía	EUR	611	-	1	612	530	28/10/2019	28/10/2024	1.06%
Spain	EUR	85	-	1	86	94	13/08/2012	02/01/2028	1.50%
USA	USD	571	95	-	476	442	06/04/2017	21/12/2025	1.30%
Total unsecured bank loans		5,057	115	20	4,962	4,665			
Total bank loans		5,062	115	20	4,967	4,674			
Senior Notes	USD	9,974	79	208	10,103	9,535	25/01/2018	25/01/2025	4.75%
Senior Notes	EUR	12,203	72	118	12,249	10,573	15/03/2017	15/03/2024	3.25%
Total Senior Notes		22,177	151	326	22,352	20,108			
Total		27,239	266	346	27,319	24,782			
Less: current portion of non current debt		(250)	-	-	(250)	(22)			
Non-current debt		\$ 26,989	\$ 266	\$ 346	\$ 27,069	\$ 24,760			

As of December 31, 2020, the annual maturities of non-current debt, gross of debt issuance and obtaining costs are as follows:

	2021	2022	2023	2024	2025	2026 and thereafter	Total
Bank loans ¹	\$ 250	\$ 238	\$ 287	\$ 455	\$ 767	\$ 3,065	\$ 5,062
Senior Notes ²	-	-	-	12,203	9,974	-	22,177
	\$ 250	\$ 238	\$ 287	\$ 12,658	\$ 10,741	\$ 3,065	\$ 27,239

⁽¹⁾ Interest on bank loans will be paid quarterly.

⁽²⁾ Interest on Senior Notes will be paid semiannually.



Faced with the expectation of decreased sales and generation of cash flow derived from COVID-19, Nematik decided to negotiate amendments with the banks with which it has committed credit line contracts (Note 4), to obtain flexibility in its financial obligations. The amendments to these contracts were made during the months of May and June of 2020, in such a way that Nematik was able to obtain flexibility in its financial obligations as of June 30, 2020 and until June 30, 2021. Derived from these amendments, Nematik paid a fee of US\$0.49, which was recognized in the consolidated statement of operations. The amendments included modifications to the restrictive and unrestrictive covenants as mentioned below.

Covenants:

Loan contracts and debt agreements contain restrictions, primarily with respect to compliance with certain financial ratios, including:

- Interest coverage ratio: which is defined as EBITDA (See Note 27) for the period of the last four complete quarters⁽¹⁾ divided by financial expenses, net, for the last four quarters, which shall not be less than 3.0 times.
- Leverage ratio: which is defined as consolidated debt at that date, being the gross debt or net debt appropriate, divided by EBITDA (See Note 27) for the period of the last four complete quarters (1), which shall not be more than 4.75 and 3.5 times for the year ended December 31 2020 and 2019, respectively.

⁽¹⁾ As part of the amendments to the debt contracts, EBITDA for the period of the last four quarters ended did not include expenses related to COVID-19.

Additionally, in the aforementioned agreements, there are commitments related to the Senior Notes issued in USD in January 2018, as well as similar financing denominated in Euros issued in March 2017, among the most important of which is the limitation to contract debt or increase it in the event that it does not comply with the fixed-charges coverage ratio at a rate of at least 2.25 and 2.0 times, respectively.

During 2020 and 2019, the financial ratios were calculated in according to the formulas set out in the effective debt agreements.

At December 31, 2020 and 2019 and the date of issuance of these consolidated financial statements, the Company is in compliance with all obligations and covenants contained in its credit agreements; such obligations, among other conditions are subject to certain exceptions, and require or limit the ability of the Company to:

- Provide certain financial information;
- Maintain books and records;
- Maintain assets in appropriate conditions;
- Comply with applicable laws, rules and regulations;

- Incur additional indebtedness;
- Pay dividends (only applicable to Nematik SAB)
- Grant liens on assets;
- Enter into transactions with affiliates;
- Perform a consolidation, merger or sale of assets, and
- Carry out sale and lease-back operations

As of December 31, 2020 and 2019, there are no assets pledged as collateral for any of the subsidiaries, except for some assets, pledged as collateral in a long-term debt granted by a Brazilian government entity to promote investment ("BNDES"). As of December 31, 2020 the outstanding balance and the value of the pledged assets are approximately US\$0.3 (\$5.1) and US\$0.3 (\$5.1). As of December 31, 2019 the outstanding balance and the value of the pledged assets are approximately US\$0.5 (\$8.8) and US\$0.6 (\$11.0).

On December 23, 2019, Nematik obtained financing with Bancomext for an amount of US\$190 at a rate of LIBOR + 2.70% with a 10-year maturity, the resources were used to prepay the existing debt held with Bancomext for US\$114.7 and with NAFIN for US\$76.60

16. Lease liability

As of December 31, 2020			
	2020		2019
CURRENT PORTION:			
USD:	\$	212	\$ 70
MXP:		-	86
EUR:		186	169
Other currencies:		24	47
Current lease liability	\$	422	\$ 372
NON-CURRENT PORTION:			
USD:	\$	458	\$ 133
MXP:		-	294
EUR:		973	939
Other currencies:		545	487
		1,976	1,853
Less; Current portion of lease liability		(422)	(372)
Non-current lease liability	\$	1,554	\$ 1,481



As of December 31, 2020 and 2019, changes in the lease liability related to the finance activities in accordance with the statement of cash flow are integrated as follows:

	2020	2019
Lease liability as of January 1,	\$ -	\$ 902
Financial lease reclassification	-	705
Beginning balance	\$ 1,853	1,607
New contracts	376	693
Write-offs	(9)	(2)
Adjustment to liability balance	-	15
Interest expense from lease liability	86	70
Lease payments	(298)	(380)
Exchange loss	(32)	(150)
Ending balance	\$ 1,976	\$ 1,853

The total of future minimum payments of leases that include non-accrued interest is analyzed as follows:

	December 31, 2020
Less than 1 year	\$ 422
Over 1 year and less than 3 years	763
Over 3 year and less than 5 years	426
Over 5 years	365
Total	\$ 1,976

17. Other liabilities

	December 31	
	2020	2019
CURRENT:		
Other taxes and withholdings	\$ 216	\$ 409
Statutory employee profit sharing	170	167
Share-based payment (Note 20)	12	10
Others	18	28
Total	\$ 416	\$ 614

	December 31	
	2020	2019
NON-CURRENT:		
Other	\$ 273	\$ 184
Total	\$ 273	\$ 184

18. Employee benefits

Derived from the COVID-19 pandemic (Note 2a.), the Company carried out labor terminations representing 9% of the total workforce, which led to the recognition of US\$36 for termination benefits expense and other COVID-19 related expenses. In addition, Nemak received support from the European government for a total of US\$24, recognized in the operating income. This support did not entail any commitment from the Company.

The valuation of employee benefits for retirement plans is based primarily on their years of service, current age and estimated salary at retirement date.

Subsidiaries of the Company have established funds for the payment of retirement benefits through irrevocable trusts.

The employee benefit obligations recognized in the consolidated statement of financial position are shown below:

	December 31	
	2020	2019
COUNTRY		
Mexico	\$ 604	\$ 562
United States	38	29
Canada	168	184
Poland	243	171
Austria	228	220
Germany	174	139
Other	113	103
Total	\$ 1,568	\$ 1,408



Below is a summary of the primary financial data of these employee benefits:

	December 31	
	2020	2018
OBLIGATIONS IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION:		
Pension benefits	\$ 1,426	\$ 1,253
Post-employment medical benefits	142	155
Liability recognized in the consolidated statement of financial position	1,568	1,408
CHARGE IN THE CONSOLIDATED STATEMENT OF OPERATIONS FOR:		
Pension benefits	(195)	(84)
Post-employment medical benefits	(6)	(6)
	(201)	(90)
REMEASUREMENTS FROM EMPLOYEE BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Pension benefits	(40)	(117)
Post-employment medical benefits	26	(20)
	(14)	(137)
Remeasurements accumulated in stockholder's equity	\$ (352)	\$ (338)

The Company operates post-employment medical benefits in Mexico and Canada. The accounting method, assumptions and frequency of valuations are similar to those used for benefits defined in pension schemes.

Amounts recognized in the consolidated statement of financial position are determined as follows:

	December 31	
	2020	2019
Present value of the obligations	\$ 2,220	\$ 2,035
Fair value of plan assets	(652)	(627)
Net liabilities in the consolidated statement of financial position	\$ 1,568	\$ 1,408

The movement in the defined benefit obligation during the year was as follows:

	2020	2019
As of January 1	\$ 2,035	\$ 1,802
Current service cost	157	54
Interest cost	57	56
Contributions from plan participants	1	1
Remeasurements:		
Actuarial remeasurements	341	172
Settlements	(4)	-
Benefits paid	(246)	(64)
Exchange differences	(121)	14
As of December 31,	\$ 2,220	\$ 2,035

The movement in the fair value of plan assets for the year was as follows:

	2020	2019
As of January 1	\$ (627)	\$ (564)
Interest income	(22)	(25)
Remeasurements – return from plan assets, net	(42)	(55)
Exchange differences	(41)	4
Contributions from plan participants	(5)	(8)
Employee contributions	(1)	(1)
Benefits paid	86	22
As of December 31	\$ (652)	\$ (627)



The primary actuarial assumptions were as follows:

	December 31	
	2020	2019
MEXICO:		
Inflation rate	3.15%	2.83%
Wage increase rate	4.50%	4.50%
Future wage increase	3.50%	3.50%
Medical inflation rate	6.50%	6.50%
DISCOUNT RATE:		
Mexico	6.75%	7.00%
Canada	2.79%	3.11%
Austria	1.00%	2.00%
United States	3.05%	3.05%
Germany	1.60%	0.82%
Poland	1.30%	3.30%

The sensitivity analysis of the main assumptions for defined benefit obligations discount rate were as follows:

	Impact on defined benefit obligations		
	Change in assumptions	Increase in assumptions	Decrease in assumptions
Discount rate	+1%	\$ (182)	\$ 218

Pension benefit assets

Plan assets are comprised of the following:

	2020	2019
Equity instruments	\$ 440	\$ 425
Short and long-term fixed-income securities	212	202
	\$ 652	\$ 627

19. Stockholders' equity

At December 31, 2020 and 2019, the fixed, capital stock of \$ 6,599 and \$ 6,599, respectively, was represented by 3,077 and 3,077 million registered common shares, "Class I" of the Series "A", without face value, fully subscribed and paid, respectively.

As of December 31, 2019, the shares were represented as follows:

	Number of shares	
Stockholder	(In millions)	Amount
ALFA	2,318	\$ 4,971
Public investors	761	1,633
Repurchase of shares	(2)	(5)
Balances as of December 31, 2019	3,077	\$ 6,599

As of December 31, 2020, the shares were represented as follows:

	Number of shares	
Stockholder	(In millions)	Amount
Controladora Nemark	2,316	\$ 4,966
Public investors	761	1,633
Balances as of December 31, 2020	3,077	\$ 6,599

The movement in outstanding shares for the year was as follows:

	Number of shares (In millions)
Shares as of January 1, 2019	3,079
Repurchase of shares	(2)
Shares as of December 31, 2019	3,077
Shares as of December 31, 2020	3,077

The profit for the period is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to 20% of the capital stock. As of December 31, 2020 and 2019, the legal reserve amounted to \$1,179 and \$1,049, respectively, which is included in retained earnings.



On February 25, 2020, the Annual Ordinary Shareholders' Meeting was held, in which the payment of a cash dividend of US\$0.0164 per outstanding share was approved, equivalent to approximately US\$51 (\$954). However, taking into account the effects derived from COVID-19, the Company approved at the Annual Ordinary Shareholders' Meeting held on June 19, 2020, to revoke the payments of the exhibitions of the declared dividends that were scheduled for July 1, October 1 and December 18, 2020, equivalent to US\$38 (\$715).

Dividends paid in the first quarter of 2020 and as of December 31, 2019 were US\$13 (\$306) (\$0.10 per share) and \$2,439 (\$0.79 per share) which fully arise from the Net Tax Profit Account (CUFIN).

Dividends paid are not subject to income tax if paid from the CUFIN. Any dividends paid in excess of this account will cause a tax equivalent to 42.86% if they are paid in 2020. This tax is payable by the Company and may be credited against its income tax in the same year or the following two years or, if applicable, against the flat tax of the period. Dividends paid from profits, which have previously paid income tax are not subject to tax withholding or to any additional tax payment. As of December 31, 2020, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA) amounted to \$3,494 and \$8,643, respectively.

In accordance with the Mexican Income Tax Law becoming effective on January 1, 2014, a 10% tax on income generated starting 2014 on dividends paid to foreign residents and Mexican individuals when these correspond to taxable income. It also establishes that for fiscal years 2001 to 2013, the net tax on profits will be determined as established in the Income Tax Law effective in the corresponding fiscal year.

The incentive is applicable provided that such dividends or profits were generated in 2014, 2015 and 2016 and are reinvested in the legal entity that generated such profits, and consists of a tax credit equal to the amount obtained by applying the dividend or profits distributed, which corresponds to the year such amounts are distributed as follows:

Year of distribution of dividend or profit	Percentage of application to the amount of dividend or profit distributed.
2019	5%
2020	5%
2021 onwards	5%

The tax credit will be used against the additional 10% income tax that the entity must withhold and pay.

To apply the tax credit, the Company must meet the following requirements:

- Must identify in its accounts the corresponding accounting records to earnings or dividends generated in 2014, 2015 and 2016 and the respective distributions.
- Present in the notes to the consolidated financial statements information for the period in which profits were generated, dividends were reinvested or distributed.

Entities distributing dividends or profits in respect of shares placed among the investing public should inform brokerage firms, credit institutions, investment firms, the people who carry out the distribution of shares of investment companies, or any other intermediary, the necessary details so that these brokers can make the corresponding withholding. For the years ended December 31, 2020 and 2019, the Company generated taxable income of \$(933) and \$2,493, which may be subject to this withholding.

In the case of a capital reduction, Mexican tax law establishes that any excess of stockholders' equity over capital contributions be given the same tax treatment as applicable to dividends.

20. Share based payments

Nemak has a compensation scheme referenced to the value of Nemak and ALFA's shares for senior executives of Nemak and its subsidiaries. According to the terms of the plan, eligible executives will receive a cash payment conditional on the achievement of certain quantitative and qualitative metrics based on the following financial measures:

- Improved share price
- Improvement in net income
- Permanence of the executives in the Company

The bonus will be paid in cash over the next five years, i.e. 20% each year based on the average price per share in pesos for the month of December of each year. The average share's price considered for the compensation's measurement in Mexican pesos in 2020 and 2019 for Nemak was \$6.41 and \$8.15 and for Alfa was \$15.39 and \$15.72, respectively.



Short and long-term liability consists of the following:

	December 31	
	2020	2019
Short term	\$ 12	\$ 10
Long term	31	27
Total carrying amount	\$ 43	\$ 37

21. Expenses classified by nature

The total cost of sales and administrative expenses, classified by nature, were as follows:

	December 31	
	2020	2019
Raw materials	\$ (24,699)	\$ (29,347)
Maquila (production outsourcing)	(5,254)	(6,068)
Employee benefit expenses (Note 24)	(15,630)	(17,166)
Personnel expenses	(54)	(157)
Maintenance	(3,760)	(4,263)
Depreciation and amortization	(6,826)	(6,079)
Freight charges	(451)	(498)
Advertising expenses	(9)	(10)
Consumption of energy and fuel	(3,253)	(3,679)
Travel expenses	(73)	(280)
Operating leases	(255)	(319)
Technical assistance, professional fees and administrative services	(1,070)	(1,293)
Other	(1,989)	(2,445)
Total	\$ (63,323)	\$ (71,604)

22. Other (expenses) income, net

	2020	2019
Gain on sale of property, plant and equipment	\$ 6	\$ 4
Impairment of property, plant and equipment	(133)	(915)
Other income ⁽¹⁾	(908)	116
Total other expenses, net	\$ (1,035)	\$ (795)

⁽¹⁾ Primarily includes COVID-19 related items

23. Financial results, net

	2020	2019
FINANCIAL INCOME:		
Interest income in short-term bank deposits	\$ 49	\$ 32
Intercompany financial income (Note 26)	4	46
Other financial income ¹	23	164
Total financial income	76	242
FINANCIAL EXPENSES:		
Interest expense on bank loans	(1,641)	(1,534)
Other financial expenses ²	(105)	(42)
Total financial expense	(1,746)	(1,576)
EXCHANGE FLUCTUATION GAIN (LOSS), NET:		
Exchange fluctuation gain	8,484	5,336
Exchange fluctuation loss	(9,504)	(5,370)
Total exchange fluctuation loss, net	(1,020)	(34)
Financial results, net	\$ (2,690)	\$ (1,368)

¹ Mainly includes interest on plan assets and other items.

² Mainly includes the financial cost of employee benefits.



24. Employee benefit expenses

	2020	2019
Salaries, wages and benefits	\$ 13,137	\$ 14,586
Contributions to social security	2,176	2,208
Employee pension benefits (Note 18)	157	54
Other contributions	160	318
Total	\$ 15,630	\$ 17,166

25. Income taxes

The Company is subject to income tax, whose rate is 30% in Mexico. The statutory income tax rates applicable to the main foreign subsidiaries were as follows:

	2020	2019
Germany	30.0%	30.0%
Austria	25.0%	25.0%
Brazil	34.0%	34.0%
China	25.0%	25.0%
Spain	24.0%	24.0%
Slovakia	21.0%	21.0%
United State of America	21.0%	21.0%
Hungary	9.0%	9.0%
Poland	19.0%	19.0%
Turkey	20.0%	22.0%

a) Income tax recognized in the consolidated statement of operations:

	2020	2019
Current tax	\$ (513)	\$ (2,331)
Deferred tax	332	1,187
Income tax expensed	\$ (181)	\$ (1,144)

b) The reconciliation between the statutory and effective income tax rates was as follows:

	2020	2019
Income before taxes	\$ (752)	\$ 3,637
Equity in losses of associates recognized through the equity method	29	(41)
Income before interests in associates	(723)	3,596
Statutory rate	30%	30%
Taxes at statutory rate	217	(1,079)
(Add) less tax effect on:		
Inflation adjustments	(254)	(199)
Non-deductible expenses	(330)	(134)
Non-taxable exchange effects	286	220
Other	(100)	48
Total income tax expense	\$ (181)	\$ (1,144)
Effective rate	24%	31%

c) The detail of the deferred income tax asset and liability is as follows:

	December 31	
	2020	2019
Inventories	\$ 43	\$ (12)
Property, plant and equipment	(1,520)	(1,109)
Intangible assets	(181)	(108)
Asset valuation reserve	-	8
Provisions	1,236	1,042
Tax loss carryforwards	1,137	1,350
Other temporary differences, net	315	(114)
Deferred tax asset	\$ 1,030	\$ 1,057
Inventories	\$ (13)	\$ (8)
Property, plant and equipment	(2,443)	(2,362)
Intangible assets	(1,392)	(1,414)
Debt issuance and obtaining costs	-	(56)
Provisions	1,495	1,161
Tax loss carryforwards	77	3
Other temporary differences, net	325	721
Deferred tax liability	\$ (1,951)	\$ (1,955)



Tax losses as of December 31, 2020 expire in the following years:

Expiration year	Amount
2023	\$ 1,641
2024	895
2025 and thereafter	4,740
No maturity	4,459
	\$ 11,735

Additionally, as of December 31, 2020, the Company holds tax losses to be amortized for an amount of \$7,688 and has decided to reserve the total amount.

d) The tax charge/(credit) related to comprehensive income is as follows:

	2020			2019		
	Before taxes	Tax charged/(credited)	After taxes	Before taxes	Tax charged/(credited)	After taxes
Translation effect of foreign entities	\$2,909	\$ -	\$2,909	\$(1,846)	\$ -	\$(1,846)
Remeasurements of obligations for employee benefits	(14)	1	(13)	(137)	22	(115)
Other comprehensive income items	\$2,895	\$ 1	\$2,896	\$(1,983)	\$ 22	\$(1,961)

26. Transactions with related parties

Transactions with related parties during the years ended December 31, 2020 and 2019, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

December 31, 2020							
Loans with related parties							
	Accounts receivable	Non-current Amount	Capital and Interest	Currency	Maturity date DD/MM/YYYY	Interest rate	Accounts payable
ALFA	\$ -	\$ -	\$ 80	MXP	16/08/2021	5.49%	\$ -
Asso- ciates	73	-	41	EUR	04/03/2021	4.35%	43
Ford	882	-	-				-
Total	\$ 955	\$ -	\$ 121				\$ 43

December 31, 2019							
Loans with related parties							
	Accounts receivable	Non-current Amount	Capital and Interest	Currency	Maturity date DD/MM/YYYY	Interest rate	Accounts payable
ALFA	\$ -	\$ -	\$ 76	MXP	16/08/2020	4.98%	\$ -
Asso- ciates	63	2	38	EUR	16/08/2020	8.50%	53
Ford	602	-	-				-
Total	\$ 665	\$ 2	\$ 114				\$ 53

During 2019, the Company received the deposit of a loan with Alfa at the rate of LIBOR 1 month + 3% with a maturity as of December 23, 2019 for the amount of \$706.

Sales revenues and other related parties:

Year ended December 31, 2020			
	Finished goods	Interest	Others
ALFA	\$ -	\$ 2	\$ -
Ford	13,772	-	-
Associates	-	2	266
Total	\$ 13,772	\$ 4	\$ 266



Year ended December 31, 2019			
	Finished goods	Interest	Others
ALFA	\$ -	\$ 41	\$ -
Ford	18,724	-	-
Associates	-	5	273
Total	\$ 18,724	\$ 46	\$ 273

Cost of sales and other expenses with related parties:

Year ended December 31, 2020			
	Administrative services	Other costs and expenses	Dividends paid
ALFA	\$ 43	\$ -	\$ 231
Affiliates	-	97	-
Total	\$ 43	\$ 97	\$ 231

Year ended December 31, 2019			
	Administrative services	Other costs and expenses	Dividends paid
ALFA	\$ -	\$ -	\$ 1,825
Affiliates	78	-	-
Associates	-	166	-
Ford	-	-	119
Total	\$ 78	\$ 166	\$ 1,944

For the years ended December 31, 2020 and 2019, wages and benefits received by senior management of the Company were \$132 and \$142, respectively, an amount comprising base salary and other benefits associated with the Company's share based payment plans.

27. Segment financial information

Segment information is presented consistently with the internal reporting provided to the chief executive officer who is the highest authority in operational decision-making, resource allocation and assessment of operating segment performance.

The Company manages and evaluates its operation through five primary operating segments, which are:

- North America; in which Mexican, Canadian and United States operations are grouped.
- Europe operations include the plants in Germany, Spain, Hungary, Czech Republic, Austria, Poland, Slovakia, Russia and Turkey.
- The operating segments that fail to comply with the limit established by the standard itself to be reported separately, such as Asia (including plants in China and India), South America (including plants in Brazil and Argentina), and other less significant operations, are added and shown under the "rest of the world".

The transactions between operating segments are performed at market value and the accounting policies with which the financial information by segments is prepared, are consistent with those described in Note 3.

The Company evaluates the performance of each of the operating segments based on income before financial results, income taxes, depreciation and amortization ("EBITDA"), considering that this indicator is a good metric to evaluate operating performance and the ability to meet principal and interest obligations with respect to indebtedness, and the ability to fund capital expenditures and working capital requirements. Nevertheless, EBITDA is not a measure of financial performance under IFRS and should not be considered as an alternative to net income as a measure of operating performance or cash flows as a measure of liquidity.

The Company has defined the Adjusted EBITDA by also adjusting for the impacts of asset impairment.



Following is the condensed financial information of these operating segments:

For the year ended December 31, 2020

	North America	Europe	Rest of the world	Eliminations	Total
STATEMENT OF OPERATIONS					
Income by segment	\$34,586	\$25,023	\$ 8,461	\$ (1,745)	\$ 66,325
Inter-segment income	(76)	(1,013)	(656)	1,745	-
Income from external customers	\$34,510	\$24,010	\$ 7,805	\$ -	\$ 66,325
EBITDA					
Operating income	\$ 1,348	\$ 825	\$ (206)	\$ -	\$ 1,967
Depreciation and amortization	3,658	2,407	761	-	6,826
Impairment	117	12	4	-	133
Adjusted EBITDA	\$ 5,123	\$ 3,244	\$ 559	\$ -	\$ 8,926
Capital investments (Capex and intangibles)	\$ 3,452	\$ 1,875	\$ 328	\$ -	\$ 5,655

For the year ended December 31, 2019

	North America	Europe	Rest of the world	Eliminations	Total
STATEMENT OF OPERATIONS					
Income by segment	\$43,060	\$ 28,413	\$ 7,304	\$ (1,414)	\$ 77,363
Inter-segment income	(487)	(827)	(100)	1,414	-
Income from external customers	\$42,573	\$ 27,586	\$ 7,204	\$ -	\$ 77,363
EBITDA					
Operating income	\$ 3,121	\$ 2,170	\$ (327)	\$ -	\$ 4,964
Depreciation and amortization	3,246	2,045	788	-	6,079
Impairment	735	5	175	-	915
Adjusted EBITDA	\$ 7,102	\$ 4,220	\$ 636	\$ -	\$ 11,958
Capital investments (Capex and intangibles)	\$ 3,475	\$ 2,263	\$ 878	\$ -	\$ 6,616

The reconciliation between "Adjusted EBITDA" and profit before tax is as follows:

	2020	2019
Adjusted EBITDA	\$ 8,926	\$11,958
Depreciation and amortization	(6,826)	(6,079)
Impairment	(133)	(915)
Operating income	1,967	4,964
Financial results, net	(2,690)	(1,368)
Equity in associates	(29)	41
(Loss) income before taxes	\$ (752)	\$ 3,637

For the year ended December 31, 2020

	Property, plant and equipment, net	Goodwill	Intangible assets and right of use
North America	\$ 26,582	\$ 2,130	\$ 3,622
Europe	20,754	4,064	3,224
Rest of the world	4,155	-	978
Total	\$ 51,491	\$ 6,194	\$ 7,824

For the year ended December 31, 2019

	Property, plant and equipment, net	Goodwill	Intangible assets and right of use
North America	\$ 25,313	\$ 2,013	\$ 3,540
Europe	19,894	3,522	3,210
Rest of the World	2,933	-	660
Total	\$ 48,140	\$ 5,535	\$ 7,410

Nemak's clients are automotive companies, known as OEMs. The Company has the following global clients whose transactions represent more than 10% of the consolidated sales: Ford 23% and 25%, General Motors 19% and 19%, Fiat-Chrysler 11% and 12% and Volkswagen Group 15% and 14% in 2020 and 2019, respectively.



28. Commitments and contingencies

In the normal course of its business, the Company is involved in disputes and litigation. While the results of the disputes cannot be predicted, As of December 31, 2020, the Company does not believe that there are current or threatened actions, claims or legal proceedings against or affecting the Company which, if determined adversely to it, would damage significantly its individual or overall results of operations or financial position.

As of December 31, 2020 and 2019, the Company had the following contingency:

Nemak México, S.A. received from the Canada Revenue Agency (CRA) the claim for a tax credit for refunds of Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) for an approximate total amount, including interest, for US\$82. The CRA alleges that Nemak delivered certain assets in Canada that were subject to GST and HST. However, the Company filed an objection to the CRA's Audit Division arguing that its clients acted as importers in Canada and that Nemak delivered the goods to them outside of such country. Based on a face-to-face meeting with the CRA where the evidences and arguments required to support our objection were presented, management and its legal advisors consider that the case will be concluded favorably, so it has not recognized any provision in its statement of financial position.

29. Subsequent events

In preparing the consolidated financial statements the Company has evaluated the events and transactions for recognition or disclosure subsequent to December 31, 2020 and through January 31, 2021, (issuance date of the consolidated financial statements), and has concluded that there are no subsequent events that require recognition or disclosure.

30. Authorization to issue the consolidated financial statements

On January 31, 2021, the issuance of the accompanying consolidated financial statements was authorized by Armando Tamez Martínez, Chief Executive Officer and Alberto Sada Medina, Chief Financial Officer.

These consolidated financial statements are subject to the approval of the Company's shareholders' meeting.




Armando Tamez Martínez
Chief Executive Officer




Alberto Sada Medina
Chief Financial Officer

For more information visit us at:

<http://www.nemak.com>
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STOCK EXCHANGE AND SYMBOL

NEMAK S.A.B. DE C.V.

Trades on the Mexican Stock Exchange under the symbol NEMAK.



